The Levy Economics Institute of Bard College

Report

October 2006 Vol. 16, No. 4

CONFERENCE: GENDER EQUALITY, TAX POLICIES, AND TAX REFORM IN COMPARATIVE PERSPECTIVE

On May 17 and 18, economists and legal scholars gathered at the Levy Institute to discuss the relationship between gender equality, tax policies, and tax reforms around the world. Most people are not accustomed to thinking of taxation as a gender issue. But taxes affect men and women differently. For instance, income tax codes may contain explicit biases against married women, as when only husbands are allowed to take exemptions or allowances. The burden or incidence of the income tax may fall more heavily on one sex or the other, and there may be different behavioral responses to income taxation. Another issue is independent or individual versus joint filing of income taxes. *Joint filing* refers to a system in

Claire Young, Dennis Ventry, Bridget Crawford, and Elissa Braunstein

Continued on page 3 ►

Contents

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.

Editor: Greg Hannsgen
Text Editor: Ellen Liebowitz
Photographer: Karl Rabe

To be placed on the *Report* mailing list, order publications, or inquire about or comment on research and events, contact the Levy Institute:
The Levy Economics Institute of Bard College, Blithewood, PO Box 5000, Annandale-on-Hudson, NY 12504-5000
Tel: 845-758-7700, 202-887-8464 (in Washington, D.C.); Fax: 845-758-1149; E-mail: info@levy.org

All publications are available on the Institute's website (www.levy.org).

Conference *Continued from page 1*

which the personal income of a married couple, from whatever source, is aggregated and included in a joint tax return. Under progressive income tax systems with joint filing, wives tend to face a higher *de facto* tax rate on their income than their husbands because they usually earn less than their husbands but are taxed at a rate determined by the aggregate of their own and their husband's income. This puts them in a higher tax bracket than they would be if only their own income was considered. This "marriage tax" is generally considered to operate as a disincentive for women to participate in the labor market. This disincentive is not present in systems with *independent* or *individual filing,* in which wives' tax brackets are based solely on their own income. However, systems with individual filing may still perpetuate gender-stereotyped roles through the operation of the system of tax allowances and tax credits. Sales and consumption taxes may also affect men and women differently. For instance, most value-added tax (VAT) systems are highly regressive, so that lower-income households pay a higher proportion of their income in VAT than do better-off households. Because women tend to be more concentrated in lower-income households than are men, and female-headed households on average tend to have lower income than male-headed households, VAT not only has a higher incidence on poor households, it also has a higher incidence on women than on men. Finally, taxes support a range of public services on which both men and women depend, but gender differences in responsibilities for care may have important implications for the level and allocation of tax revenue. The papers presented at the conference, which are summarized below, shed much light on these and other issues of taxation and gender.

Session 1. Modeling the Implications of Personal Income Tax for Intrahousehold Inequality and Labor Market Participation in Europe

Chair: DIANE ELSON, LEVY INSTITUTE AND UNIVERSITY OF ESSEX, UNITED KINGDOM

Speakers: HOLLY SUTHERLAND, INSTITUTE FOR SOCIAL AND ECONOMIC RESEARCH, UNIVERSITY OF ESSEX; PALOMA DE VILLOTA, UNIVERSIDAD COMPLUTENSE DE MADRID

Discussant: FRANCES WOOLLEY, CARLETON UNIVERSITY, CANADA

While the tax and cash benefit systems in most developed countries no longer explicitly discriminate against women, they still have different effects on the behavior of men and women. The effects of tax and benefit systems operate both through access to income (and hence consumption) and potential access to independent (earned) income, through work incentives. For instance, tax-benefit policies that reduce income inequalities within couples or compensate for time spent in childbearing or caring may reduce the incentives of the lower earner (usually the wife) to earn an independent income. Whether this is the case, and the extent it is so across country and by types of couple, is explored in the paper by Sutherland and her coauthors, Herwig Immervoll and Horacio Levy. Using a computer simulation, they estimated how various government programs changed women's share of total couple income in nine European countries. The authors found that government taxes and benefits raised women's share of household income to varying degrees, ranging from 4 percentage points in Austria to 1 percentage point in Greece. The authors next compared the effective "tax rates" on men's and women's earnings, including the loss of benefits when earnings rise. They found that joint tax systems disadvantage women relative to their partners, in terms of their incentives to increase work effort, but only when the frame of reference was total household income.

In 1981, the European Commission issued a report that described ways in which tax systems in Europe discriminated against married women in the workforce. The report encouraged member states to tax husbands and wives on an individualized basis. De Villota's paper provides estimates of the extent of discrimination remaining in the tax codes of European Union countries. A majority of EU states now have independent income tax assessment, but tax systems are still very diverse in their treatment of second earners. De Villota has constructed an index—ranging in value from zero to one—of the amount of discrimination against second earners in a country's tax code. The index measures the relationship between the amount of tax paid by a primary earner to the amount paid by a secondary earner, over a range of incomes. Spain, with a joint tax system, is the second most discriminatory EU country, having a discrimination rate of .5931. Germany, in which income is split between spouses for tax purposes, has a rate of .4074, which lies near the average for the EU. In France, the treatment of a second earner's income depends upon the number of children in the family; for a childless couple, the rate of discrimination is .5331. De Villota also investigated the extent to which high marginal tax rates on secondary earners act as a disincentive for wives to work. There is indeed a strong negative correlation between the discrimination index and the employment rates of married women aged 15 to 59.

Session 2. Gender Dimensions of Tax Reform in Europe

Chair: SUE HIMMELWEIT, OPEN UNIVERSITY, UNITED KINGDOM

Speakers: TIM CALLAN, ECONOMIC AND SOCIAL RESEARCH INSTITUTE, IRELAND; FRAN BENNETT, UNIVERSITY OF OXFORD

Discussant: JULIE NELSON, GLOBAL DEVELOPMENT AND ENVIRONMENTAL INSTITUTE, TUFTS UNIVERSITY

There has been a trend in Europe toward systems of independent taxation of spouses. Callan's study recounts Ireland's role in this trend and investigates the degree to which individualization affected labor supply in that country. To estimate effects on labor supply, Callan attempted to model the "preferences" of men and women about work—how much labor they would be willing to supply at different after-tax wage rates. He then simulated the labor market behavior of Irish workers by testing how they would respond under different hypothetical tax systems. Callan finds that the percent drop in wives' desired work hours for each percent rise in their husbands' hourly wage was -.35, indicating that they often reduce their work effort if their husbands' earnings are sufficient. Women's labor supply response to changes in their own wages was a substantial .88, indicating that they pay attention to economic incentives. Callan finds that all types of income tax cuts have modest, positive effects on labor force participation rates, but that different forms of tax cuts affect men and women differently. A cut in the tax rate at the top bracket or an increase of the amount of income subject to the standard tax rate leads to a much larger increase in work by wives than by husbands. Moves toward a more independent tax system also have a modest effect on married women's labor force participation.

Bennett discussed several gender issues connected with the United Kingdom's income tax system. She said that gender has not been a prominent consideration in official policy making in the United Kingdom in recent years. Nonetheless, the women's movement has had an impact on tax and benefits policy. The government has been convinced to pay many benefits and tax credits in the paycheck of the "main caregivers" (usually women), rather than the primary earner. Also, there has been a movement toward independent taxation. A lively debate still surrounds these reforms, however. Some tax credits are still subject to a means test based on joint income, leading to ongoing criticism. Some feminist analysts have disagreed with the "main carer" concept, claiming that it reinforces a traditional "division of labor" between spouses. Critics also contend that viewing caregivers as mere conduits of resources for their children may lead to a neglect of the caregivers' own needs and rights. Bennett pointed out that in developing tax policies favorable to women's economic independence, policymakers need to take steps to ensure that women are actually ready to take on this role; for example, assistance might be provided to ease the transition to (more) paid work.

Session 3. Gender-Blind and Gender-Aware Tax Policy

Chair: TIM CALLAN, ECONOMIC AND SOCIAL RESEARCH INSTITUTE, IRELAND

Speakers: LISA PHILIPPS, YORK UNIVERSITY, CANADA; SUE HIMMELWEIT, OPEN UNIVERSITY, UNITED KINGDOM; ELISSA BRAUNSTEIN, COLORADO STATE UNIVERSITY; CAREN A. GROWN, LEVY INSTITUTE

Discussant: HEIDI HARTMANN, INSTITUTE FOR WOMEN'S POLICY RESEARCH

Philipps discussed tax policy in Canada. In that country, a great deal of the government's social spending is done by the provinces; also, the federal government has increasingly tried to achieve its social policy objectives through "tax expenditures," such as credits and deductions. Hence, the national government runs relatively few social programs, and it may have difficulty achieving social policy objectives through action on the expenditure side of the budget. Unfortunately, in developing tax-based tools of social policy, the government has done little analysis from the perspective of gender, concentrating instead on the effects of tax policies on different income groups. But women make up a relatively high proportion of low-income groups, and they are more likely than men to rely on certain forms of income and on social services provided by the government. They have not benefited to as great an extent as men from a recent wave of tax cuts, which have generally favored people with high incomes. Some recent measures, such as the caregiver tax credit, would appear to benefit women, but the credit is nonrefundable (it is not given to those with no tax liability) and its recipients have been mostly men. Tax deductions, of course, benefit mostly those in the upper income brackets. Moreover, when men directly receive such a credit, one should not assume that they share the cash with their wives equally or spend their money in a way that serves the best interests of the family as a whole.

Himmelweit discussed public budgeting and publicly provided child care in particular. Currently, the United Kingdom is operating under the "golden rule" of budgeting. This means most government expenditures are subject to strict deficit limits, while certain "investments" are excluded from the limits. Despite the fact that education and health care are certainly investments, they are not included in this category when the United Kingdom develops its budgets. As a result, there has been downward pressure on education and health care budgets, a problem that has several important implications for gender equality. First, women depend more than men on these services, since they are more likely to be responsible for the care of children. Second, when child care is put in the category of "current" rather than investment spending, it may crowd out other forms of government spending that help women. Third, a majority of paid child care workers are women. Himmelweit noted that, while the government of the United Kingdom encourages more parents to work, public subsidies for child care lag far behind those of other EU countries. Himmelweit stated that there were two possible strategies for improving child care provision: first, the government could encourage the provision of quality paid care by devoting more resources to this priority; alternatively, it could encourage mothers and fathers themselves to provide care by increasing the availability of jobs with flexible schedules.

Braunstein's paper, coauthored by Caren A. Grown and Diane Elson, examined the effects of state taxation on employment. Though this issue has been studied before, Braunstein, Grown, and Elson's paper is the first to examine how the effects of state taxation vary between workers of different genders. Women and men might be affected differently by taxes for several reasons, Braunstein pointed out. Men's labor force participation rates differ from women's, and male workers are concentrated in different industries and occupations from female workers. Also, if taxes fund certain types of public services (e.g., social services) over others, that expenditure may benefit women more than men. Using data on state-level tax revenues and women's employment, the authors examine three issues regarding the effects of taxes, keeping other factors constant: Do states with high taxes have low rates of female and male employment? Does the breakdown of state tax revenues among personal, corporate, sales, and other taxes affect women's and men's employment? Do states with high tax rates relative to other states in the same region have low rates of male and female employment? The authors find that there is a positive relationship between tax levels and the level and growth rate of employment, for both men and women. Also, a high ratio of corporate to other taxes tends to improve levels and growth rates of employment, especially for women. Finally, tax competition among states in a region negatively affects employment growth for higher-tax states in the region, but the impact is larger for men than for women.

Evelyne Huber

Session 4. Personal Income Tax in Bargaining Models

Chair: DIMITRI B. PAPADIMITRIOU, LEVY INSTITUTE
Speaker: ELISABETH GUGL, UNIVERSITY OF VICTORIA, CANADA
Discussant: TSU-YU TSAO, BARD COLLEGE

Gugl's presentation involved a highly abstract model of a very topical policy issue—the labor supply of married women—using a model of bargaining within the household. Empirical evidence suggests that women's labor supply has become less sensitive ("elastic") to their wage rates over time. As a way of explaining such behavior, Gugl presented a two-period model. Both members of a couple may work and do housework in the first period. A key feature of the model is that women's wages in the second period of marriage depend upon whether and how much they worked in the first period—a standard "human capital" argument. The idea of the paper is that women may choose to work more in the first period of their lives, in order to increase their wages in the second period, in the event that they wind up divorced or in an "uncooperative marriage." More work can

Caren A. Grown

Janet Stotsky

then enhance women's power in bargaining over household resources. This strategic choice may be affected by the institutional framework in which marriage takes place: if divorce is relatively easy and inexpensive, women may be more concerned about their potential earnings. Ireland, which has recently liberalized its divorce laws, may be a case in point. Some types of tax reform that affect divorced women's tax burden may help men at the expense of women, or vice-versa, by changing the bargaining power of spouses.

Session 5. Taxation and Marriage in the United States

Chair: ELISSA BRAUNSTEIN, COLORADO STATE UNIVERSITY
Speakers: BRIDGET CRAWFORD, PACE UNIVERSITY; DENNIS VENTRY, UNIVERSITY OF CALIFORNIA, LOS ANGELES
Discussant: CLAIRE YOUNG, UNIVERSITY OF BRITISH COLUMBIA, CANADA

The current U.S. estate tax system, which dates from 1981, allows unlimited tax-free inheritances by spouses. The inheritances of people other than surviving spouses are usually subject to tax. Crawford argued that this system is unfair in a number of ways. The law is based on a legal tradition in which husband and wife are "of one flesh," which is a vestige of the common law rule of coverture, a doctrine that suspended a woman's legal identity during marriage. Married couples form a single unit in the eyes of the law. But there are several flaws in this reasoning. First, extensive empirical research has shown that it is not always true that both spouses have equal access to a couple's resources, forming an economic unit. Second, it is unclear why other sorts of relationships, such as civil unions and elderly siblings, do not count the same way in the eyes of tax law. In other words, according to Crawford, the current system unjustly privileges traditional male-female marriages and makes unwarranted assumptions about the nature of such relationships. More subtly, submerging women's legal identity in a couple may infringe on their rights to legal "personhood." A more just approach, according to Crawford, would be to tax transfers between spouses, including bequests, like transfers to other people, but allow a larger amount of inheritance to be excluded from taxation altogether, regardless of the recipient.

Ventry's paper analyzed the politics and economics of the U.S. federal income tax system over the past 40 years. Ventry first described the competing claims for tax equity from single and married taxpayers in the early 1970s, and examined early feminist critiques of the tax code as well as staunch defenses of the discriminatory treatment suffered by working wives and two-earner families. Ventry next evaluated how changing social and economic norms in the mid- to late 1970s—in particular, increases in women's labor force participation and falling representation of single-earner families among American households—conflicted with a static tax system and intransigent tax policymakers. He also examined expert and political debate on joint versus individual filing. The next two sections of the paper illustrated how the commitment to the traditional family restricted policy solutions to rising marriage tax penalties in the late 1970s and demonstrated that in the context of the conservative 1980s, tax policies marketed as "prowomen" were more accurately "profamily"; that is, they helped women only insofar as women were mothers and wives. Finally, the last section of the paper described legislative efforts regarding taxes over the last 20 years, which included nominal reductions in marriage tax penalties for nontraditional families and huge increases in marriage tax bonuses for traditional families. The analysis commends the adoption of individual tax filing for a society with multiple forms of family, including single parents, cohabiting singles, single-earner and dual-earner households, and opposite-sex and same-sex families.

Corina Rodriguez-Enriquez

Session 6. Gender, Taxation, and Development

Chair: CAREN A. GROWN, LEVY INSTITUTE

Speakers: JANET STOTSKY, INTERNATIONAL MONETARY FUND; EVELYNE HUBER, UNIVERSITY OF NORTH CAROLINA, CHAPEL HILL

Discussants: CORINA RODRIGUEZ-ENRIQUEZ, CENTRO INTERDISCIPLINARIO PARA EL ESTUDIO DE POLITICAS PUBLICAS, ARGENTINA; THÍTU MWANIKI, INSTITUTE OF ECONOMIC AFFAIRS, KENYA; JANE KIRINGAI, KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS

In her presentation, Stotsky surveyed gender bias in a number of tax systems and tax reforms around the world and made some suggestions for future research. She made a distinction between explicit and implicit bias in tax codes. *Explicit gender bias* refers to specific provisions of the law or regulation that identify and treat men and women differently. Explicit discrimination is intentional. *Implicit gender bias* refers to provisions of the law and regulations that, because of typical social arrangements and economic behavior, tend to have different implications for men than for women. One form of explicit bias is the allocation in the income tax system of deductions, exemptions, and credits to the husband, rather than the wife, even in a two-earner household. In the Netherlands, for example, married men enjoyed a larger tax-free allowance than married women until 1984. Until recently, some European countries with joint taxation prevented wives from signing tax returns or making inquiries to the tax authorities. These explicit biases operate alongside the implicit biases that exist when a progressive income tax schedule is combined with joint taxation, as explained in the preface to this conference report. Implicit bias may also be present in sales or value added taxes through preferential treatment of certain classes of producers or if the items that women tend to purchase are taxed more heavily than the goods that men tend to consume. Starting in the 1980s, there has been a wave of reforms aimed at reducing various biases in tax systems, but in general, explicit and implicit bias persists in tax systems of both developed and developing countries.

Huber discussed the gendered impacts of the tax systems of four countries in Latin America and the Caribbean: Argentina, Chile, Costa Rica, and Jamaica. In general, the people of Latin America pay a relatively small percentage of their incomes in tax, and tax evasion and avoidance is widespread. The weak system of public finance hinders efforts to alleviate poverty and all forms of inequality. Huber described the impact of a wave of neoliberal tax reforms that have been implemented in much of Latin America since the 1970s, partly at the behest of the international financial institutions, such as the International Monetary Fund. The thrust of these initiatives has been to attempt to broaden the tax base, improve enforcement, and lower marginal rates. In practice, many countries in Latin America have deeply cut income taxes and import duties and put more emphasis on value-added and other "indirect" taxes (Jamaica being one exception). Research offers some insight into how reforms have changed the fairness of the tax code, based upon the limited information that is available on differences in consumption patterns, earnings, occupations, and so on. The evidence shows that Jamaica and Costa Rica, in reforming their tax codes, have been fairer to women and people with low incomes than the other two countries. The gender-related effects of tax code changes depend upon the marital and employment status of the woman and whether she is responsible for children. Single working women are disadvantaged by regressive taxes because their earnings are relatively low, on average. Single women with children and many married women bear more than their share of the burden of higher indirect taxes, as they are responsible for buying household goods for their children and themselves.

Session 7. Gender and Taxation in Africa

Chair: RANIA ANTONOPOULOS, LEVY INSTITUTE
Speakers: IMRAAN VALODIA, UNIVERSITY OF KWAZULU-NATAL, SOUTH AFRICA; THÍTU MWANIKI, INSTITUTE OF ECONOMIC AFFAIRS, KENYA; JANE KIRINGAI, KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS
Discussant: LUCIA FRAGOSO, GENDER EQUITY: CITIZENSHIP, LABOR, AND FAMILY, MEXICO

In South Africa, independent taxation of husbands and wives began to be phased in under the apartheid government, according to Research Associate Imraan Valodia, whose conference paper was coauthored by Terence Smith. Reform began in earnest under the new democratic government, which enshrined equality of the sexes in the new constitution. Until 1995, the South African tax system used different rate schedules for married persons and for single persons and married women, with a higher rate applied to the category of single persons and married women. In 1995, these rates were unified, and overt discrimination in the tax code was largely eliminated. There has been a reduction of indirect taxes, which tend to be regressive, but the VAT still accounts for a large portion of tax revenue, and not all necessities are exempt from this tax. Paraffin wax, used by many households for cooking, is one example. One adverse development is a de-emphasis of corporate taxation and a heavier reliance on personal income tax. It was hoped that government expenditures could offset the regressive tendencies of the tax code, but so far, new social programs have failed to reduce poverty. Along with the regressive VAT, the South African tax system features a system of deductions that benefits those in higher brackets, particularly men. Finally, South Africa taxes single-earner families (usually single mothers in the South African case) at a much higher rate than two-earner families with the same income, a particularly unfortunate policy given prevalent family structures in that country.

Bernadette Wanjala, in a paper coauthored by Naomi Mathenge and Jane Kiringai, examined the gender incidence of the value-added tax (VAT) in Kenya using micro data. The authors estimated the burden of the VAT on various demographic groups using data from the Welfare Monitoring Survey, which includes information on the expenditure patterns of households. This survey bears out the hypothesis that men tend to consume different types of goods than women. Potentially, taxes such as the VAT are regressive and hit women the hardest, since people of low and moderate income consume a higher proportion of their incomes than the wealthy. But in general, a wide array of necessities, such as foodstuffs, is exempt or zero-rated for the purposes of the VAT, while "luxuries" and other nonnecessities are taxed, a provision that eases the burden of the VAT on the less well-off. For example, in the quarter of households that spent the least on consumption (the first quartile), only 14 percent of households' purchases were subject to the VAT; for the top quarter of spenders (the fourth quartile), fully 42 percent of expenditures were taxed under the VAT. However, the heavier taxation of goods purchased by the relatively well-to-do did not by any means make the tax code fair to women or the poor. Within each quartile of the population, the amount of spending free from the VAT varied significantly by gender: women were taxed on a higher percentage of their purchases than their male counterparts in most quartiles and in both rural and urban areas. The authors next looked at the amount of VAT paid as a percentage of income (rather than expenditure) for both genders and for each expenditure quartile. Because women's incomes tend to be smaller than men's, this burden was higher for women.

Session 8. Gender and Tax Policy Advocacy

Chair: DIANE ELSON, LEVY INSTITUTE AND UNIVERSITY OF ESSEX, UNITED KINGDOM
Speaker: MIMI ABRAMOVITZ, HUNTER COLLEGE SCHOOL OF SOCIAL WORK

Abramovitz pointed out that women make up at least half of all U.S. taxpayers. Yet throughout its history, according to Abramovitz, the tax system has not taken the needs of women into account, especially women with low incomes and women of color. Since women are still the main caregivers in today's society, they are the main consumers of public goods and services that support these caregiving roles, which depend upon taxes. Moreover, on average, women have lower pay and live longer than men, so they rely more on public programs. Since women tend to have relatively low incomes, their well-being depends upon a progressive tax system. But Abramovitz documented that the progressivity of U.S. taxes has ebbed and flowed since the late 19th century, with major changes occurring in three periods: 1) the deep depression of the 1890s, 2) the collapse of the economy in the 1930s, and 3) the crisis of profitability in the mid-1970s. The progressive income tax first came into existence in the 1860s, but taxation based on the ability to pay has been a hotly contested issue ever since. The progressivity of the tax system has declined since the mid-1970s, a change that has been one cause of increasing income inequality. This most recent upheaval in tax policy has increased the relative burden of taxes on women.

New Policy Note

The Burden of Aging: Much Ado About Nothing, or Little to Do About Something?

L. RANDALL WRAY
Policy Note 2006/5
www.levy.org/pubs/pn_5_06.pdf

Many Americans share a sense that the Social Security system is headed for bankruptcy, largely because the U.S. population is aging rapidly. U.S. economists and think tanks have played no small role in sowing the seeds of panic among the citizenry. In a new policy note, Senior Scholar L. Randall Wray asks whether these fears are well-founded and, if so, whether anything can be done in advance to prevent disaster.

Wray has written elsewhere about the "financial" burden of an aging society—casting doubt on claims that the Social Security system will literally run out of money to pay benefits. In the new note, Wray looks at the "real" burden of the increase in the aged population, meaning the ability of the future economy to produce sufficient public and private goods and services to meet the needs of the aged. The distinction between the financial and real burdens is important, because a lack of productive capacity could cause problems even in the event that all benefits due under current law are paid. Being unprepared for the real burden could mean inflation or rationing of scarce goods and services.

Wray concedes that the real burden will be large. But what can be done to prepare for it? In response to this question, one economist at a Washington think tank suggested to Wray that more capital was the answer. To an economist, capital includes human capital (education, training, experience, etc.), private capital (manufacturing plants, long-lasting equipment used to produce other goods, and software, for example), and public infrastructure (dams, highways, public buildings, and so on). It is thought that if the nation's saving rate were higher, more resources would be available for producing various types of capital.

Wray agrees that the accumulation of capital is an important determinant of the future economy's ability to support seniors. But he argues that the prescription of "more capital" is not very helpful. Investment in education and public infrastructure are urgent priorities: in many respects, the U.S. educational system is not performing well, and the American Society of Civil Engineers estimates that the infrastructure deficit for the United States is about $1.6 trillion. But these problems would be no less urgent if the population were not aging. When it comes to education, there is still no agreed-upon formula for improving the system, long after a national "crisis" was declared. And since most baby boom alarmists are strongly opposed to large government programs, they tend to block the very public investments that are most needed. Finally, the private sector will not do its part in investing in the future, unless it has some reason to anticipate that demand for its products will be forthcoming soon; the private accounts and saving incentives touted as remedies for low saving rates have not proven effective in getting the job done.

New Public Policy Brief

The Fallacy of the Revised Bretton Woods Hypothesis: Why Today's International Financial System Is Unsustainable

THOMAS I. PALLEY
Public Policy Brief No. 85
www.levy.org/pubs/ppb_85.pdf

Some scholars, including M. P. Dooley, D. Folkerts-Landau, and P. Garber (DFG) have recently compared the current international economic regime to that of Bretton Woods, which existed from shortly after World War II until the early 1970s, when the United States abandoned the gold standard. There are certainly many similarities between the two international economic constellations. First, though none of the main economies peg their currency to the value of gold, many East Asian nations have stabilized their exchange rates with the dollar, just as European nations did during the Bretton Woods period. Moreover, the United States runs chronic current account deficits with the Asian nations—just as it experienced deficits with European economies in the earlier period.

Thomas I. Palley, in a new public policy brief, acknowledges the similarities of the two international systems. But he argues that many important differences exist. For example, the old system allowed for exchange rate adjustments when currencies became under- or overvalued. Moreover, the Bretton Woods system worked in the context of a robust American economy, with a strong and growing domestic manufacturing sector and rising wages. Consumers were not piling up so much debt then, either.

Most of all, though, Palley objects to DFG's claim that the system is sustainable over the medium term, and disagrees with some others about the sources of the threats to sustainability. Economist Barry Eichengreen bases his claim of unsustainability on the unbalanced state of foreign central bank portfolios. To finance the current account deficit, the United States has been relying on foreign purchases of its financial assets, largely by East Asian central banks. Eichengreen believes these central banks will eventually want to diversify their portfolios by selling U.S. securities, resulting in a crash in the international value of the dollar. In contrast, Palley argues that the incentives to the Asian central banks to keep dollar exchange rates stable are just too great to permit a large fall in the dollar. Moreover, in light of the opening of Chinese capital markets, which will allow Chinese citizens to purchase U.S. assets, one cannot assume that central banks will incur capital losses on these assets.

Palley offers a different explanation of unsustainability, focusing on domestic demand factors. While foreign lenders ultimately provide the cash that fuels the U.S. consumption machine, the immediate source of loans to domestic consumers is the domestic banks, and it is the banks that will have a great deal of influence on when the borrowing binge will end. This could happen, for example, if widespread defaults occurred, a possible result of recent increases in interest rates. Once domestic lending falls, consumers will reduce their spending, and U.S. and foreign producers will lose a key market.

Part of the solution, Palley argues, is to manage exchange rates in a cooperative fashion, rather than allowing other governments to control rates to the benefit of their exporters. This change might answer the imperative for a more sustainable system.

New Working Papers

Extending Minsky's Classifications of Fragility to Government and the Open Economy

L. RANDALL WRAY
Working Paper No. 450
www.levy.org/pubs/wp_450.pdf

The late Levy Institute scholar Hyman P. Minsky was recognized as a leading developer of the theory of financial fragility. Since many today worry that large current account and government deficits pose a threat to the stability of the U.S. economy, fragility is as important an issue today as it was when Minsky wrote in the late 20th century.

The essence of Minsky's contribution was his classification of firms into three categories: hedge, speculative, and Ponzi. A firm that could reasonably expect to be able to pay interest and principal on its debt was a hedge firm. Those firms whose cash flow would be sufficient to pay interest but not reduce the principal were called speculative. Finally, so-called Ponzi firms would continually be forced to take out new loans, not just to pay off the principal, but also to make interest payments when due. As the business cycle reached a peak, Minsky believed, speculative and Ponzi finance would become more common, setting the stage for a financial crisis.

In a new working paper, Senior Scholar L. Randall Wray applies these Minskyan categories to governments and to nations. Minsky's own views on these matters changed over the years. Early in his career, Minsky argued that the government should run continual deficits, as long as the capital-output ratio was constant and the private sector desired safe, liquid assets. Later, in the 1980s, he came to believe that the government might lose creditworthiness if it did not run surpluses in times of full employment, a new line of thought that marked a change of emphasis, not an apostasy from Keynesianism. Regarding current account deficits, Minsky applied his threefold categorization of hedge/speculative/Ponzi to governments as a whole, leading him to conclude that countries with foreign debts could become Ponzi units if they did not run trade surpluses large enough to pay their debt service costs (interest, etc.).

This analysis, Wray argues, does not apply to a country such as the United States, whose debts are denominated almost entirely in dollars. Since the United States pays its bills in its own currency, it does not need to conserve and attract reserves in the form of foreign currency. In particular, the government can pay its debts by crediting bank accounts with reserves created from nothing by the Federal Reserve. Since there is no fixed exchange rate, this process has no limits. One could speculate that this "exorbitant privilege" on the part of the United States might not last; in fact, Minsky worried about the loss of the dollar's status as a reserve currency as early as the 1980s. But as of now, the country's debt almost entirely takes the form of dollar obligations.

Time and Money: Substitutes in Real Terms and Complements in Satisfactions

J. BONKE, M. DEDING, and M. LAUSTEN
Working Paper No. 451
www.levy.org/pubs/wp_451.pdf

An earlier version of this paper was presented at the Institute's conference, "Time Use and Economic Well-Being," on October 28–29, 2005. Please see the summary of this presentation on pages 20–21 of the January 2006 *Report.*

The Minskyan System, Part I: Properties of the Minskyan Analysis and How to Theorize and Model a Monetary Production Economy

ÉRIC TYMOIGNE
Working Paper No. 452
www.levy.org/pubs/wp_452.pdf

Hyman P. Minsky was well known for his work on the financial stability of capitalist economies. This body of theory has attracted a number of adherents, who subscribe to several different theoretical interpretations of Minsky's work, as well as a number of detractors. Éric Tymoigne of Fresno State University recently wrote his dissertation on Minsky, in which he elaborates his own careful and thorough reading of Minsky's work. This working paper, the first installment in a series of papers by Tymoigne on Minsky, lays the groundwork for Tymoigne's analysis by proposing a synopsis of Minskyan theory in 12 principles.

It would be difficult to summarize all 12 principles in this small space, just as it would be difficult to outline the Minskyan corpus in a short summary. Some of the main principles are outlined here. First, the economy for Minsky must be understood as a monetary production economy. Thinking of the economy in this way emphasizes that maintaining adequate cash flow is important for all firms. Moreover, finance is key in an economy in which money is needed (for working capital, etc.) even to begin the production process. Much of the vulnerability of the capitalist system flows from this dependence on finance, and Minsky's theory has been dubbed "financial Keynesianism."

Another key aspect of the economy emphasized by Minsky is financial innovations. These include new financial instruments. As an example, when large negotiable certificates of deposit (CDs) were developed, they had a major impact on the operation of the financial system as a whole. Like CDs, many financial innovations allow banks to operate more profitably than before. For that reason, they are usually beneficial to the economy, according to Minsky. But they can destabilize the economy, if, for example, they lead to a greater financial interdependence among economic actors.

Minsky also based his analysis on the principle of the "cash box condition." This was a balance between cash inflows and outflows that enabled firms to meet their financial commitments, such as debts associated with the financing of capital goods. One of the main themes of Minsky's work was a threefold classification of firms according to their ability to meet future cash commitments using expected revenue streams and liquid assets. (See the summary of Working Paper No. 450, this issue of the *Report.*) When a relatively high proportion of agents cannot reasonably expect to meet their commitments to pay cash in the future, firms become more vulnerable to adverse changes in their cash flow or costs of refinancing, and the economy becomes fragile, according to Minsky.

Minsky remains one of the most insightful theorists of the modern capitalist economy. Economists can all profit from a study of his work, which is summarized and interpreted in Tymoigne's paper.

The Minskyan System, Part II: Dynamics of the Minskyan Analysis and the Financial Fragility Hypothesis

ÉRIC TYMOIGNE
Working Paper No. 453
www.levy.org/pubs/wp_453.pdf

This new working paper, the second in a series of articles by Éric Tymoigne of Fresno State University, focuses on how financial fragility tends to emerge as economic booms mature. This paradoxical process was dubbed "the instability of stability" by Minsky.

The key impetus for the development of fragility, as explained in a previous paper by Tymoigne (see page 11 of this issue of the *Report*) is the evolution of the predominant structure of finance from hedge to speculative and then sometimes to Ponzi. There are two aspects of this process, according to Tymoigne: what happens on the actual ("real") side of the economy and what happens to expectations of the future.

Subjective expectations of entrepreneurs and bankers are important in Minsky's theory, in part because they influence the conventionally accepted ratio between expected cash commitments and expected cash inflows. Among the factors that determine this important figure (really a set of figures for different firms) are borrowing power and the ratio between expectations of profit and current profit. These factors vary systematically over the business cycle: for example, in the midst of a crisis, the accepted convention regarding borrowing is that it leads to disaster; in recovery, agents emphasize prudence in increasing leverage; and in expansion, leverage is regarded as a convenient way to increase profit. Minsky's hypothesis about the evolution of expectations in prosperity is supported by the work of behavioral economists and psychologists, who have confirmed a tendency to overconfidence after the experience of success.

The real factors leading to a tendency toward fragility are also an integral part of the business cycle. Despite the fact that profits may turn out to be higher than expected in an exuberant time, eventually they tend to grow at a slower rate than investment and cash commitments. This tendency can be shown by an analysis of the Kaleckian profits equation, which is similar to an equation independently developed by Jerome Levy. Each element in the equation for profits has a tendency to change in a certain direction as the cycle progresses. For example, consumption out of distributed profits may fall, which can lead to a fall in total profits, or the trade balance may decline, as higher incomes lead to higher imports. Meanwhile, another real tendency is an increase in cash commitments (agreements to pay certain amounts of money in the future).

This summary can give but a flavor of the richness of Minsky's analysis, which is more fully developed in Tymoigne's paper. Tymoigne concludes with some observations on the prospects of empirically testing Minsky's propositions. Much of Minsky's work was devoted to historical analysis of particular episodes of instability, which certainly counts as a form of empirical verification. But efforts to more formally test Minsky's theory sometimes founder on complexities of the hypothesis: some of the factors that lead to fragility are neglected or cannot be measured using existing data. So, supposedly disconfirming evidence should not lead to an outright rejection of Minsky's valuable work.

How Does Household Production Affect Earnings Inequality? Evidence from the American Time Use Survey

HARLEY FRAZIS and JAY STEWART
Working Paper No. 454
www.levy.org/pubs/wp_454.pdf

An earlier version of this paper was presented at the Institute's conference, "Time Use and Economic Well-Being," on October 28–29, 2005. Please see the summary of this presentation on page 20 of the January 2006 *Report.*

The Minskyan System, Part III: System Dynamics Modeling of a Stock Flow–Consistent Minskyan Model

ÉRIC TYMOIGNE
Working Paper No. 455
www.levy.org/pubs/wp_455.pdf

Éric Tymoigne of Fresno State University, in the third of his series of papers on Minsky, uses the ideas developed in the previous two papers to construct a model of the economy. The model uses the method of system dynamics, which allows the introduction of many complicating factors, including shifting parameters, that would be impossible to consider in even the most complicated models that use more conventional methods. The model is in the post-Keynesian tradition and also adopts the principles of stock flow–consistent modeling, which is familiar to the readers of Levy Institute strategic analyses.

The second section of the paper is devoted to the simulation of the effects of a number of variables on the economy as a whole. Since so many aspects of the economy are included in the model, a number of very roundabout chains of events can be analyzed with the system dynamics approach.

The author checks the effects of differences in accepted cash-flow margins. The result depends upon the initial conditions of the simulation (where the model "starts out"). If highly conservative conventions regarding cash-flow ratios are in effect at the beginning of the simulation, then the economy goes into a tailspin, according to the model. On the other hand, a high degree of optimism in financial conditions can lead to a never-ending inflationary boom. This result may seem to be in conflict with some of Minsky's expectations, but, as Tymoigne shows in the other papers in this series, Minsky was aware that a boom could feed on itself through a virtuous cycle of increasing profitability and profit expectations.

Another set of simulations in the paper involves exogenous changes to the cost of funds to firms. In an environment in which agents are optimistic about future growth, a positive shock to the interest rate leads to a decline in activity; this decline does not reverse itself on its own, but continues forever. On the other hand, the results of another simulation show that the effects of monetary policy are asymmetric: even an enormous negative shock to the cost of funds does not cure an economy in which the prevailing mood is pessimistic. This set of results confirms the widespread intuition of postwar Keynesian economists that trying to cure a recession with interest-rate cuts is like "pushing on a string."

Further simulations show the effects of a change in the speed with which bad debts are written off, changes in the maturity structure of assets and liabilities, the introduction of a variable monetary policy, and other economic factors, showing the versatility of Tymoigne's model.

Asset Prices, Financial Fragility, and Central Banking

ÉRIC TYMOIGNE

Working Paper No. 456

www.levy.org/pubs/wp_456.pdf

Many economists believe that the problem of how to run a central bank has been solved. They cite the relatively smooth recent performance of the U.S. economy as evidence of the validity of modern ideas about the role of the central bank. At the core of these commonly accepted ideas are the centrality of price stability, the importance of the credibility and transparency of monetary authorities, and the use of interest rates as the primary tool of monetary policy.

In a new working paper, Éric Tymoigne of Fresno State University examines a wide range of beliefs about the appropriate role of central banking, particularly with regard to asset prices. He first discusses the so-called "new consensus" view of monetary policy mentioned above. The new consensus literature can be divided into three parts. One part examines the relationship between price stability and financial stability. Many economists in the new consensus camp believe that price stability can foster stability in the financial realm, while others argue that price stability can actually destabilize the financial sector, for example, by instilling very bullish sentiment in speculators. A second component of the new consensus literature dwells on whether financial variables are an appropriate concern in setting monetary policy, in addition to price variables. The third theme of the new consensus relates to the appropriate response of a central bank to an asset bubble, a question that calls to mind then Federal Reserve Board chief Alan Greenspan's passive reaction to the stock market bubble of the late 1990s.

After assessing the new consensus view, Tymoigne turns to the equally variegated post-Keynesian literature, a body of thought to which many Levy Institute scholars have contributed over the years. Post-Keynesian scholars tend to be skeptical of the role of monetary policy as an inflation-control mechanism, partly because, for this heterodox school of thought, inflation is not primarily a monetary phenomenon, and because money is not "neutral." (It affects "real" variables such as output and employment.) Tymoigne deals with two themes in the post-Keynesian literature: 1) the relationship between full employment, price stability, and financial fragility, and 2) the role of monetary policy in the valuation of financial assets.

The final section of the paper deals with central banking and financial stability. Tymoigne disagrees with the post-Keynesian economists who see an important role for interest rate manipulation in the policy of the Fed; he would prefer that the federal funds rate be kept relatively low and stable. He argues that the main role of the Fed should be to help insure financial stability by acting as a supervisor of financial institutions and a lender of last resort. Tymoigne outlines a vision of the Fed as a highly active partner of the private sector in steadying the crucial financial side of the economy.

Why Central Banks (and Money) "Rule the Roost"

CLAUDIO SARDONI

Working Paper No. 457
www.levy.org/pubs/wp_457.pdf

In recent years, there have been a number of articles in academic journals and the popular press about the new role of electronic money of various forms. One example is direct electronic transfers from bank accounts to pay bills. Other examples include credit cards and some forms of prepaid Internet "money." Some of the articles suggest that these new forms of money might take over to the extent that people would need little traditional money, such as currency and deposits with the Federal Reserve system. The Fed's monopoly on the issue of such traditional monies would no longer give it much leverage over the economy.

In a new working paper, Claudio Sardoni of the University of Rome "La Sapienza" argues that the Federal Reserve and its liabilities will continue to play a central role in the economy for the foreseeable future. In making this argument, Sardoni cites the work of economist Nicholas Kaldor on the special properties of money. Kaldor argued that traditional money has been established as the "unit of account," the unit in which debts can be paid off. Because money's value cannot appreciate or depreciate in terms of the unit of account, its special role in the economy is guaranteed. Furthermore, the return on money (primarily its "services" as a medium of exchange) "rule the roost" in Keynes's phrase, ultimately determining the rates of return on all other assets in the economy, including bonds. These rates of return help set the pace of economic growth.

One reason why private monies probably will not supplant the dollar is that any established form of money enjoys network externalities. In other words, users of the dollar benefit from the fact that most other people and firms also use and accept the dollar. It is unlikely that, lacking a government mandate, a potential alternative to the dollar could ever command such widespread acceptance in the United States. And unless acceptance was widespread, no one would want to stop using the dollar.

Sardoni also deals with theories in which money develops spontaneously because it is the most efficient means of exchange. These include the theory of "optimal currency areas." Sardoni believes that the process by which a particular form of money comes to be widely used in a geographical area is largely a political, social, and institutional one, not one that occurs spontaneously through the interaction of self-interested individuals. One obvious example is the adoption of the euro.

Dissent and Discipline in Ben Gurion's Labor Party: 1930–32

JOEL PERLMANN

Working Paper No. 458
www.levy.org/pubs/wp_458.pdf

A new working paper by Senior Scholar Joel Perlmann discusses an opposition group that existed within Jewish Palestine's Mapai party from 1930 to 1933, shedding new light on the political history of Israel.

The small group was made up mostly of young adults who had recently arrived from the Soviet Union or Poland and who were reacting in part to anti-Jewish demonstrations and violence in 1929. Their positions on a number of fundamental issues were presented in a series of pamphlets. In general, these pamphlets espoused a Marxist view and reflected a knowledge of world affairs. First, the group insisted that class struggle should remain at the heart of the party's agenda. Collusion with what the group called the Jewish bourgeoisie in an effort to expand the Zionist project was contrary to the interests of the class struggle. The Zionist project should continue, this faction argued, but with an emphasis on solidarity of the working class, not excessive nationalism.

Second, the group argued that the party should join with Palestinian Arabs to combat Arab feudalism, Jewish capitalism, and the imperialism of the British, who occupied the country at that time. They believed that such an effort would stimulate economic development, reduce Arab hostility, and end British machinations, thus permitting a moderate level of immigration of Jews to Palestine. Instead of what they termed the "narrow nationalism" of Mapai, the leaders of the small movement called for a democratic, binational state. One pamphlet stated, "No national peace can be envisioned in this land so long as we aspire—openly or secretly—for a Jewish state." The group denounced the larger party's emphasis on the situation in Palestine alone, emphasizing the fact that most Jews would not immigrate to Palestine. An enormous immigration would tax the economy and inflame Arab nationalism.

The group signed its pamphlets "members of Mapai," which concerned the party leadership because of the differences of viewpoint. Ben Gurion, the leader of the party, implied that the group was acting as a mouthpiece for the international socialist movement, with insufficient regard for nationalist objectives. The group's views were discussed in a number of party meetings, which eventually led to a meeting between the party's leaders and the Marxist faction. In this gathering, the leaders of the opposition group emphasized that they intended to work within the party as a whole and did not seek to capture "positions in the institutions" of the party. The organization continued to publish its opinions after the first meetings occurred, but the party eventually decided to expel the members of the group from Mapai. The people involved in the movement continued their work outside the larger party, but remained a tiny force.

Banking, Finance, and Money: A Socioeconomics Approach

L. RANDALL WRAY
Working Paper No. 459
www.levy.org/pubs/wp_459.pdf

For decades, students in introductory economics have been taught Paul Samuelson's "hypothetical" history of the origins of money. Before money, the story goes, there were markets conducted entirely through barter—the exchange of goods directly for other goods. Eventually, some form of money comes into existence, because it makes exchange more efficient. The problem with barter is that it requires a "double coincidence of wants": if I have a bushel of wheat and want to obtain salt, I must find someone who wants to exchange salt for wheat. With the introduction of money, the need for a double coincidence of wants is eliminated. At first, the money takes many different forms in different societies: large rocks, gold coins, grain, etc. Metallic currency eventually replaces these multifarious monies, because it represents another step forward in efficiency. Bank notes and deposits, and later fractional reserve banking, enabled further gains in efficiency. In a new working paper, Senior Scholar L. Randall Wray of the University of Missouri–Kansas City and the Center for Full Employment and Price Stability argues that this account incorrectly treats the origins of money as natural, rather than social.

Wray's story, which is based upon historical and archeological scholarship, goes much differently. Markets do not predate money; markets operated through a system of debits and credits from the beginning. In fact, one of the primary functions of markets through the ages has been to settle debts. Moreover, money does predate markets, having been used as a means of settling fines and penalties imposed by the ruling class. "Fiat" money has always had value because of the fact that it was the only way to settle debts with a sovereign government—first fines and penalties, later taxes. Later, government—in the form of the central bank—acted as a clearinghouse, accepting fiat money as payment for private debts. Bank liabilities have value for similar reasons: banks accept them as a means of settling bank debts.

This history helps clear up some policy questions. Does government need to impose some rules on itself to ensure "sound finance" of its spending? No, it has the power to mobilize resources simply by crediting bank accounts with its own liabilities, created de novo. These balances are backed by the sovereign government's ability to tax, not some natural property of the currency, such as reserves of gold. What passes as a means of financing government is essentially a monetary policy operation. When the government spends by creating reserves, it adds to the total amount of reserves in the banking system, leading to an incipient excess of reserves beyond what the public wishes to hold at the going interest rate. If no bonds are sold by the government, this surplus of reserves has a tendency to drive the interest rate below the level targeted by the central bank. Hence, the government, whether through open market operations by the central bank or bond sales by the Treasury, must act in order to keep the interest rate from moving erratically. A currency imposed by the government ultimately gives the government enormous powers to attract resources, provided its history and functions are well understood.

How the Maastricht Regime Fosters Divergence as Well as Fragility

JÖRG BIBOW
Working Paper No. 460
www.levy.org/pubs/wp_460.pdf

Recently, economic "divergences" across the euro area have been a topic of discussion in economic and policy-making circles.

Usually, these discussions focus on differing rates of inflation in different euro area countries. Such divergences are often seen as a salutary mechanism to ease adjustment to shocks that affect some countries more than others. Some say that beneficial divergent movements in price and wage inflation are encouraged by structural "reforms," such as weakening unions and laws that protect workers.

In a new working paper, Research Associate Jörg Bibow of Skidmore College analyzes divergences of both inflation and "real" variables such as economic growth. He comes to quite a different conclusion about the role of reforms and divergence. Divergence, he says, is not a new phenomenon in Europe, but it has reemerged strongly since 2001. Domestic demand in Germany has been depressed, France grew faster than Germany until recently, and Spain has experienced a boom. Inflation differentials have existed for some time. Asymmetric conditions such as these can pose particular problems for regions with a common currency, because individual countries cannot tailor their monetary policies to local circumstances.

The theory of optimum currency areas, developed by economist Robert Mundell, is an important part of mainstream views of how currency unions such as the euro area function. This theory suggests that economic shocks (such as recessions) differ across the countries of any potential currency area. Since changes in exchange rates are impossible within an area with common currency, the entire burden of adjustment must rest on changes in wages and prices. Booming (depressed) economies experience inflations (deflations), which render their exports less (more) competitive in other markets. This "competitiveness effect" has a tendency, then, to even out the economic performance of the countries in the currency union. If this effect does not work, fiscal policy is the main lever by which asymmetric shocks can be overcome. Unfortunately, fiscal policy in the eurozone has been tightly restricted by the Stability and Growth Pact, which sets limits to the deficits of member governments.

There are several reasons why deficit limits foster divergence rather than convergence. When an economy is booming, tax revenues usually rise and government benefit payments fall, making it easy to reduce deficits below limits without crimping economic performance. On the other hand, when a country is in recession and needs expansionary deficits more than ever, tax revenues fall and benefit payments rise. As a result, deficits reach their limits long before adequate stimulus has been provided. Even differential growth in prices and wages do not cause convergence as hoped for by Mundell. When wages and prices are up, not only can exports fall, but domestic consumption spending is stimulated. Hence healthy economies grow even faster, and sick economies decline further. Another such destabilizing effect arises from the fact that when inflation rises, real (inflation-adjusted) interest rates fall, all other things being equal. So wage and price flexibility may lead to divergence of economic growth across countries.

Wage Growth and the Measurement of Social Security's Financial Condition

JAGADEESH GOKHALE
Working Paper No. 461
www.levy.org/pubs/wp_461.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending on the Elderly," on April 28–29, 2006. Please see the summary of this presentation on pages 6–7 of the July 2006 *Report*.

Quick Impact Initiatives for Gender Equality: A Menu of Options

CAREN A. GROWN
Working Paper No. 462
www.levy.org/pubs/wp_462.pdf

In September 2000, at a United Nations summit, a large group of countries agreed to pursue eight Millennium Development Goals (MDG), including such targets as halving extreme poverty and hunger by 2015. Part of the MDG project involves "quick impact initiatives" (QII), which are expected to generate rapid results in the early years of the project. In a new working paper, Program Codirector and Senior Scholar Caren A. Grown suggests a list of possible QIIs designed to help meet the gender equality and women's empowerment MDG, which states that all countries should "empower women and promote equality between women and men" by 2015.

Grown's paper is informed by a list of strategic priorities written by Task Force 3 of the Millennium Project. These include:

- strengthening opportunities for post-primary education for girls while meeting commitments to universal primary education;

- eliminating gender inequality in employment by decreasing women's reliance on informal employment, closing gender gaps in earnings, and reducing occupational segregation.

Grown names a number of criteria for choosing appropriate QIIs. The QIIs are meant to fit in with a long-term strategy to achieve the MDGs but to be implementable within three to five years and to have a measurable impact within three years. Also, Grown tried to select QIIs that had proven successful in the past in a wide range of contexts and that complied with several gender-sensitive design features, including the participation of women in the design and implementation of the intervention. Another criterion was financial sustainability.

After setting out her criteria for QIIs, Grown goes on to a menu of options. Options proposed for the first of the two strategic priorities mentioned above include eliminating user fees for primary school and improving the safety and infrastructure of schools. Numerous examples are given in connection with each QII, and in the section on reducing user fees, Grown includes a passage on Mexico's PROGRESA, which provides cash assistance to families with children in secondary school. The program now reaches 2.6 million households and has been found to boost girls' enrollment significantly.

With regard to the priority to eliminate gender inequality in employment, a concrete proposal in the paper is to increase the availability of microfinance, which has already been used worldwide to help women finance small businesses and to enable poor people to save money. Grown suggests several gender-sensitive features of the best microfinance projects. They must provide a wide range of financial instruments, including loans, savings accounts, insurance, and other products, taking into account differences between the needs of men and women.

Together, the QIIs cover almost every facet of life in poor and moderate-income countries and match the urgency of the Millennium Project.

Working for a Good Retirement

BARBARA A. BUTRICA, KAREN E. SMITH, and
C. EUGENE STEUERLE
Working Paper No. 463
www.levy.org/pubs/wp_463.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending on the Elderly," on April 28–29, 2006. Please see the summary of this presentation on pages 5–6 of the July 2006 *Report.*

Differing Prospects for Women and Men: Young Old-Age, Old Old-Age, and Elder Care

LOIS B. SHAW
Working Paper No. 464
www.levy.org/pubs/wp_464.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending on the Elderly," on April 28–29, 2006. Please see the summary of this presentation on page 5 of the July 2006 *Report.*

The Local Geographic Origins of Russian-Jewish Immigrants, Circa 1900

JOEL PERLMANN
Working Paper No. 465
www.levy.org/pubs/wp_465.pdf

During the period from about 1880 through 1920, 25 million immigrants came to the United States, and Jews made up a sizable minority of this group. This period saw the largest international immigration of Jews in any four-decade period. Prior to 1914, most of the Jewish immigrants came from Russia, where there had been a great deal of anti-Jewish violence. In a new working paper, Senior Scholar Joel Perlmann, leader of the Institute's program on Immigration, Ethnicity, and Social Structure, examines exactly which localities in Russia saw the most Jewish emigration.

Perlmann uses a data source that has not been exploited in earlier studies of this type. When steamships carrying immigrants arrived in the port of New York during this period, they were required to submit to the authorities lists of passengers. These lists included a great deal of demographic information, including the city or town of origin. They also clearly show which immigrants were Jewish. Perlmann based his study on a random sample of more than eight thousand Jewish immigrants who were on such lists from 1899 to 1900 and 1907 to 1908. There were some stumbling blocks to Perlmann's approach, including problems of translation from Eastern European tongues and different towns with the same name. Perlmann also uses evidence from the 1897 Russian census.

By custom and law, Russian Jews were forbidden, for the most part, from living outside an area in the west of Russia, known as the Pale of Settlement. Hence, in identifying the origins of immigrants, he restricts his attention to this well-defined but geographically expansive area. A key new feature of Perlmann's research is that it quantifies the number of emigrants from each of 230 districts in the Pale. Previous papers have broken down emigrant flows according to larger geographic areas, such as major regions or the 25 provinces. The paper includes many maps, which indicate a measure of the intensity of emigration from each district with shades of gray. The measurements are generally in terms of the number of emigrants relative to predicted numbers of emigrants, with the predictions based upon the percentage of Russian Jews living in each district.

The findings for 1900 indicate that Jewish emigration tended to be concentrated in certain parts of the Pale: 1) the provinces of Lithuania; 2) Minsk; and 3) several provinces in eastern Poland (Lomja, Suwalki, and Plotsk). Collectively, these areas were home to 25 percent of the Pale's Jewish population in 1897, but included 61 percent of those who immigrated to the United States in 1900.

The second period of Perlmann's study was 1907. Much happened in the period leading up to this year, including the first Russian revolution and pogroms that began before the revolution. Many of the districts that sent more than their share of immigrants to the United States in 1900 continued to do so in 1907. But emigration from the Pale spread southward to a significant degree, probably reflecting the greater intensity of anti-Jewish violence in the southern areas of the Pale, where the Jewish population had been growing especially rapidly.

Net Government Expenditures and the Economic Well-Being of the Elderly in the United States, 1989–2001

EDWARD N.WOLFF, AJIT ZACHARIAS, and HYUNSUB KUM
Working Paper No. 466
www.levy.org/pubs/wp_466.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending on the Elderly," on April 28–29, 2006. Please see the summary of this presentation on pages 4–5 of the July 2006 *Report.*

The Financial Requirements of Achieving Gender Equality and Women's Empowerment

CAREN A. GROWN, CHANDRIKA BAHADUR, JESSIE HANDBURY, and DIANE ELSON
Working Paper No. 467
www.levy.org/pubs/wp_467.pdf

In September 2000, world leaders made a commitment to the objective of achieving the Millennium Development Goals (MDGs) by 2015. The MDGs include halving poverty and hunger, ensuring universal primary schooling, reducing child and maternal mortality and infectious diseases, improving environmental sustainability, and achieving gender equality and women's empowerment. This new paper about the costs of achieving the latter objective is coauthored by Senior Scholars Caren A. Grown of the Levy Institute and Diane Elson of the Levy Institute and the University of Essex, who are the codirectors of the Institute's program on gender equality and the economy; and Chandrika Bahadur and Jessie Handbury of the United Nations Millennium Project.

The authors believe that sufficient knowledge exists about policies and interventions to eliminate many forms of gender inequality and empower women, but the knowledge has yet to be systematically translated into comprehensive and large-scale effort at the country level. Some of the specific parts of the gender equality and empowerment goal include equal educational attainment, equal economic opportunities, equal ownership and control over productive assets, freedom from drudgery, equal representation in decision-making bodies, and freedom from the threat of violence and coercion. No effort has been made before now to estimate a full set of comprehensive costs for interventions for this MDG.

The United Nations Millennium Project previously drew up a list of interventions aimed at achieving the MDGs in each of a number of sectors, including education, health, rural development, urban development, slum upgrading, water and sanitation, and energy. The authors estimate the costs of three different types of intervention. First are those that are explicitly aimed at the gender equality and women's empowerment objective, which include some that fit neatly into one of the sectors above ("gender mainstreaming interventions") and some that do not. Second, some interventions are designed for other MDGs, but also contribute to gender equality and women's empowerment.

The per capita costs of undertaking all of these interventions were calculated to be $37.24 in Bangladesh, $46.69 in Cambodia, $51.90 in Ghana, $56.88 in Tanzania, and $52.00 in Uganda, with the sector-specific costs making up the largest share. To put these numbers in perspective, they represent 9 percent of 2003 GDP in Bangladesh, 15 percent in Cambodia, 18 percent in Tanzania, and 19 percent in Ghana and Uganda. The authors then estimate the financing gap, which is the amount of money needed over and above what can be raised from within the countries from government spending and household contributions. This amounts to about half of total needs. The authors recommend that donors constitute a special fund of about $13 billion per year over the next five years to accelerate various interventions. Governments themselves should increase spending to $34 billion per year for the next five years.

Global Demographic Trends and Provisioning for the Future

L. RANDALL WRAY
Working Paper No. 468
www.levy.org/pubs/wp_468.pdf

As the country debates the future of the Social Security system, Senior Scholar L. Randall Wray of the University of Missouri–Kansas City and the Center for Full Employment and Price Stability offers a broader, worldwide perspective on demographic trends. The United States population is aging as the baby boom generation reaches retirement, and even the developing world is expected to "age" in the coming century. Some social security systems, including that of the United States, have already cut back on their promises to tomorrow's seniors.

What will determine the ability of the U.S. economy to provide for the elderly in the years to come? First, it is important to gain a proper measure of the size of the burden. Social Security benefits will rise moderately from 4.5 percent of GDP to 6 percent by 2030, as the baby boomers retire, and stay below 6.5 percent through 2080. In the other industrialized nations, the extra burden will be only moderate.

Wray argues that the U.S. Social Security system does not benefit from its holdings of bonds issued by other parts of the government. Instead, Wray looks at the challenge in two ways. Regardless of the state of the Social Security trust fund, goods and services will have to be transferred from the young to the old one way or another. Some sort of tax-and-spend program is the only answer, at least as a complement to private savings and pensions. Obviously, the redistribution of the pie will be less painful if the pie is large. This latter issue is poorly understood. The ratio of workers to beneficiaries is set to fall from three to two in the coming years, but many authors fail to put this number in the proper context. Immigration is an important factor: immigration could easily accelerate faster than expected, providing not only the labor force needed to care for seniors, but also increased Social Security tax revenues. Productivity—the amount produced by each worker in a given period of time—increased 100 percent from 1960 until now, and it seems reasonable that such gains will continue in the future, yielding a bonus to the trust fund. And firms work hardest to increase their productivity when demand is strong for their products. Sometimes neglected in the debate is the fact that the situation calls for public investment, as the necessary infrastructure for the future is not in place. Useful projects include building nursing homes and long-term care and independent living facilities.

The Changing Role of Employer Pensions: Tax Expenditures, Costs, and Implications for Middle-Class Elderly

TERESA GHILARDUCCI
Working Paper No. 469
www.levy.org/pubs/wp_469.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending on the Elderly," on April 28–29, 2006. Please see the summary of this presentation on pages 5–6 of the July 2006 *Report.*

Retiree Health Benefit Coverage and Retirement

JAMES MARTON AND STEPHEN A. WOODBURY
Working Paper No. 470
www.levy.org/pubs/wp_470.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending on the Elderly," on April 28–29, 2006. Please see the summary of this presentation on page 7 of the July 2006 *Report.*

Population Forecasts, Fiscal Policy, and Risk

SHRIPAD TULJAPURKAR
Working Paper No. 471
www.levy.org/pubs/wp_471.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending and the Elderly," on April 28–29, 2006. Please see the summary of this presentation on page 7 of the July 2006 *Report.*

The Adequacy of Retirement Resources among the Soon-to-Retire, 1983–2001

EDWARD N. WOLFF
Working Paper No. 472
www.levy.org/pubs/wp_472.pdf

An earlier version of this paper was presented at the Institute's conference, "Government Spending and the Elderly," on April 28–29, 2006. Please see the summary of this presentation on page 8 of the July 2006 *Report.*

The American Jewish Periphery: An Overview

JOEL PERLMANN
Working Paper No. 473
www.levy.org/pubs/wp_473.pdf

In a new working paper, Senior Scholar Joel Perlmann calls attention to what he refers to as the American Jewish periphery: Americans of recent Jewish origins who are not closely connected with those Jewish origins. Perlmann uses data from the National Jewish Population Survey (NJPS) of 2000. The survey screened respondents by asking the following four questions: "What is your religion, if any?" "Do you have a Jewish mother or a Jewish father?" "Were you raised Jewish?" and "Do you consider yourself Jewish for any reason?" If the answer to any of these four questions indicated a Jewish connection, the survey participant was included in the sample; Perlmann characterizes this group as people with recent Jewish origins (though it includes some converts and other "Jews by choice").

The U.S. population includes roughly 3.6 million Jewish adults, or less than 2 percent of the overall population. By contrast, the group discussed in this paper, those of recent Jewish origins, is estimated to include slightly more than five million adults. Forty-nine percent of the weighted NJPS sample are members of denominations (6 percent Orthodox, 17 percent Conservative, 23 percent Reform; 2 percent other). Nineteen percent stated that they were Jewish but did not belong to any denomination. Twenty percent were Christian or both Christian and Jewish. Perlmann seeks to characterize each of these groups, concentrating on those who are neither Orthodox nor Conservative. Among "single origin" respondents—those who had two Jewish parents or were raised as "only Jewish"—66 percent gave a denominational affiliation; Orthodox Jews made up 23 percent of all single-origin people. Among those who reported mixed origins, almost no one reported a denominational affiliation, a fifth were nondenominational Jews, and just over one-half reported that they were Christian or Christian and Jewish.

The data can be looked at the opposite way: one can ask what percentage of people with each level of attachment to Judaism were of single versus mixed origins. For example, 92 percent of Reform Jews had single origins. Furthermore, those who said they were Jews but did not identify with any denomination were overwhelmingly of single origins. Of those with lower levels of attachment to the Jewish religion, mixed origins were more common: 68 percent of those with no attachment to any religion were of mixed origin, as were 60 percent of those with both Christian and Jewish attachments and 79 percent of those who identified solely as Christians.

Not only does the NJPS provide some interesting data, but it is a source of some controversy in itself, especially in the way it characterizes part of the sample as full-fledged Jews and some not. The problem of determining who is Jewish is typical of an ethnic group in the United States that has high rates of intermarriage with other groups. The United Jewish Communities, which sponsors the survey, writes reports on the results, but does not deal with all of those with recent Jewish origins, only a much smaller group that it considers Jewish or "Jewish connected." Perlmann believes that a broader focus, which encompasses the "periphery" of Jewish America, is essential for some purposes, especially to capture the social dynamics of the population.

On the Minskyan Business Cycle

KORKUT A. ERTÜRK

Working Paper No. 474
www.levy.org/pubs/wp_474.pdf

Hyman P. Minsky was one of the great late-20th-century Keynesian economists, and in a new working paper, Research Associate Korkut A. Ertürk makes some connections between Minsky's work and Keynes's *Treatise on Money,* which is perhaps less well known than Keynes's later work, *The General Theory of Employment, Interest, and Money.* While Minsky repeatedly referred to Keynes's work in his own writings, he did not often mention the *Treatise,* though, as Ertürk shows, the latter work was highly relevant to Minsky's main insights. These insights are, first, that financial fragility increases gradually over an economic expansion; and, second, that as the economy expands, the interest rate eventually rises, sowing the seeds for a downturn.

Keynes's *Treatise* explained these phenomena by citing changes in financial sentiment that occur regularly over the course of a business cycle. These sentiments cause speculative activity on asset markets. Each phase of the business cycle, according to the Keynes of the *Treatise,* is associated with a particular trend in asset prices. The phases also vary in terms of the amount of cash held by bearish investors—the so-called "bear position." In the all-important late stages of an expansion, Keynes believed that markets were in a "bull market with a difference of opinion," which means that securities prices are still rising, but a growing number of investors believe securities have become overpriced and seek refuge in cash holdings. When investors seek to hold more cash instead of securities, they drive up the interest rate—which is part of Minsky's end-of-boom scenario.

This set of ideas can be related to a number of other currents in economic thought. In particular, behavioral economists have argued in the past 20 years that securities prices are determined not by fundamentals, but by the "noise" of speculation. Ertürk models the dynamics of securities prices, showing that under certain circumstances, markets can be destabilized by speculation—a finding at odds with those economists who, like Milton Friedman, believe that floating exchange rates always stabilize markets. The ideas discussed in the paper also hark back to early debates between Keynes and "loanable funds" theorist Dennis Robertson and to a round of articles appearing in the 1980s that studied the relationship between savings and investment. For a discussion of these issues, see the summary of Ertürk's Working Paper No. 435 on page 8 of the April 2006 *Report.*

Levy Institute News

New Grants

The **International Development Research Centre** (IDRC) and the **Ford Foundation** recently awarded major grants to the Levy Institute and the University of KwaZulu-Natal (South Africa) for coordinating an international comparative project on the gender dimensions of taxation and tax policy reforms.

The grants support research of growing importance and widespread interest. Around the world, there are concerns that many tax codes are biased against women, and that contemporary tax reforms tend to increase the incidence of taxation on the poorest women while failing to generate enough revenue to fund the programs needed to improve these women's lives. Because taxes are the key source of revenue raised by governments, understanding the nature and composition of taxation and current tax reform efforts is critical to reducing poverty, providing sufficient revenue for social protection, and achieving social justice.

Tax policies and reforms are fundamentally linked to globalization. Countries need revenue to address increases in poverty and income inequality that are created in large part by integration into the global economy. Tax revenues provide governments with the unencumbered domestic resources to address poverty directly and to ameliorate some of the inequalities that are generated through global integration. Yet tax reforms that are seen to be compatible with integration into the global economy are forcing low- and low-middle-income countries to shift the burden of taxation toward individuals and away from corporations, further increasing domestic inequality.

The project focuses on the design and reform of tax systems to finance social protection programs and to enhance gender equity. It will investigate gender bias in the taxation systems of Kenya, South Africa, Mexico, Argentina, India, Morocco, and the United Kingdom. Within each country, a team composed of a tax economist, a lawyer, and a gender-aware economist will compile a quantitative and qualitative picture of the gender dimensions of tax policies and tax reforms, situated in the context of the country's integration into the global economy. The country teams will review and revise current methodologies to assess the gender impacts of taxation, including direct and indirect taxes, and apply these methodologies in the chosen set of countries. They will also engage tax policymakers in discussions of why and how gender matters and use the research findings to make recommendations for how to make taxation systems more supportive of gender equality.

These country studies will form the basis for a comparative analysis of gender and taxation in developing countries, and in particular, the specific lessons for gender-aware tax reform in the context of globalization. The outputs of the project are expected to include an edited volume containing the country case studies, information briefs for policy advocacy, country-specific recommendations for tax policy and tax reform, a new network of researchers conducting research on the gender dimensions of taxation policy, and policy advocacy at the international level. The project emerged from discussions at the workshops and international conferences of the International Working Group on Gender, Macroeconomics, and International Economics (GEM-IWG), organized at the University of Utah, Salt Lake City, in 2004 and 2005, and supported by the Ford Foundation and the IDRC.

The Levy Institute has received a generous grant from the **Alfred P. Sloan Foundation** for work being conducted in the Levy Institute Measure of Economic Well-Being (LIMEW) program. The principal investigators for the project, entitled "Long-Term Trends in Economic Well-Being in the United States and International Comparisons among Advanced Industrialized Countries," are Senior Scholars Edward N. Wolff of New York University and Ajit Zacharias.

One important aspect of human progress is the economic well-being of all members of society. Gross money income, perhaps the most widely used official measure of the level and distribution of household economic well-being, is increasingly recognized as an incomplete measure. The Institute is conducting research to construct a more adequate measure of economic well-being in order to fill this lacuna. The initial phase of the research focused on constructing the LIMEW for two benchmark years, 1989 and 2000. Subsequently, the research team has completed estimates for 1995, 2001, and 2002. Work is currently under way to update the measure going forward in time and to develop estimates for 2003 and 2004. The grant will allow the Institute to achieve two additional objectives: first, to extend the LIMEW for the United States back in time to 1962; and second, to sponsor a workshop to explore the feasibility of developing the LIMEW for several other developed market economies.

The conventional gauge of family well-being—Census money income—showed a robust growth in both mean and median values from 1947 to 1973. Then, from 1973 to 2004, there was a marked slowdown in income growth. Median and mean values approximately doubled over the first period, with the median growing slightly faster than the mean. In contrast, the percent change in mean income between 1973 and 2004 was twice as much as the change in median income (44 versus 22 percent). Income inequality, as measured by the Gini ratio, reflected these trends: between 1947 and 1973 it fell by two Gini points while it rose dramatically by eight Gini points between 1973 and 2004. The project's key question is whether the LIMEW showed similar or different time trends in the level and distribution of well-being. Since the LIMEW is more comprehensive than standard income, it will be a more reliable guide to actual changes in living standards over the postwar period.

LIMEW estimates are derived from a synthetic data set that shows trends in total work hours along with trends in economic well-being. It is useful to place the command over goods and services in relation to the command over another scarce resource—time. The team's estimates suggest that the reported increase in economic well-being between 1989 and 2000 was accompanied by increasing total hours of work.

The data constructed for the LIMEW will allow the research team to address questions such as: Has progress in economic well-being come at the expense of time for leisure and other life-enriching activities? How has the possible loss in time affected those of different economic and social backgrounds? The LIMEW can inform discussions on the type of tax and income policies and regulations the government can adopt to actively encourage workplace arrangements that reduce the extent to which workers have to make painful trade-offs between having sufficient time for oneself and one's family and community on the one hand, and income on the other.

Another focus of the project will be a comparative analysis of well-being in different countries. Different political-economic systems may lead to different outcomes in terms of living standards. By conventional measures (most notably, GDP per capita converted to U.S. dollars using purchasing power parity conversion factors), the United States is today considerably ahead of the rest of the world (with the notable exception of Luxembourg, which now ranks first). The United States has also experienced a productivity resurgence commencing in the mid-1990s, and its rate of conventionally measured productivity growth is now out ahead of most other Organization for Economic Cooperation and Development (OECD) countries.

However, it is not clear that the United States would rank first in terms of a broader measure of well-being, like LIMEW. Moreover, while the United States has seen relatively stagnant living standards over the last 30 years in terms of conventionally measured household income, other OECD countries have generally experienced advances in mean and median household income. In its comparative analysis, the project will focus on a range of OECD countries whose political-economic systems vary widely and whose governments carry out different amounts of redistribution via social welfare spending and taxation.

Upcoming Event

Symposium: Employment Guarantee Policies: Theory and Practice

October 13–14, 2006
Blithewood
Annandale-on-Hudson, New York

The focus of this symposium is on government policy initiatives that can create a safety net through public service employment for individuals who are ready, willing, and able to work but find themselves in an economic environment that does not offer employment opportunities. The premise is that unemployment and involuntary "inactivity" are *structural macroeconomic problems* of both developed and developing economies. The negative effects of unemployment reach beyond the immediate economic losses to individuals and their families and to the potential growth of the economy. Joblessness is often accompanied by poor health and psychological problems, depreciation of human capital, social exclusion, and overall lack of motivation for future work.

Protracted periods of unemployment lead to multidimensional poverty, deterioration of communities, erosion of decent job conditions, and intolerance along racial and gender divides. There appears a connection, then, between the right to work and the role of government in guaranteeing employment, and this ought to be part of the public policy dialogue.

In this symposium academics and policy analysts will present research findings and exchange views on:

- Past and current country-level experiences of employment guarantee programs
- Public service employment and price stability
- Public job creation programs that can substitute for unpaid work disproportionately carried out by women and children
- Feasibility of implementing public service employment programs
- Improving the design and effectiveness of existing programs
- Designing tools useful for policy and impact analysis, including time-use surveys and economic modeling
- The effects of public service employment in promoting gender equality and pro-poor growth

Access to employment is important for all countries in that it can be a contributing factor in ameliorating poverty and social exclusion and in promoting economic development. For other countries, achieving the Millennium Development Goals provides a timely opportunity to assess the impact employment guarantee schemes have had thus far and to analyze their potential impact for the future.

New Levy Institute Book

The Distributional Effects of Government Spending and Taxation

DIMITRI B. PAPADIMITRIOU, ED.
Houndmills, Basingstoke, Hampshire, U.K., and New York, N.Y.: Palgrave Macmillan, 2006

This book focuses on the distributional consequences of the public sector. It examines and documents, both theoretically and empirically, the effects of government spending and taxation on personal distribution, that is, on families and individuals. In addition, it investigates the relationship between the public sector and the functional distribution of national income. In this respect, three sides of government activity are encompassed: the beneficiaries of government expenditures such as schools, highways, and police and fire departments; the beneficiaries of government transfer programs; and the bearers of the tax burden.

The book also analyzes government activity on the federal level and looks at the distribution of both the costs and benefits of a single government program such as Social Security.

A key feature is the empirical studies of other countries, including countries of the European Union, Poland, Australia, and South Korea, as well as comparative studies among a set of countries.

The chapters of this volume were selected from papers delivered at Levy Institute seminars and conferences aimed at finding policy options to pressing economic problems.

Publications and Presentations

Publications and Presentations by Levy Institute Scholars

RANIA ANTONOPOULOS *Research Scholar*

Presentations: "Inflation Targeting, Full Employment Schemes, and Gender: Theory and Policy" and "Inflation Targeting and Its Alternatives," GEM-IWG 4th International Intensive Course, Knowledge Networking Program in Engendering Macroeconomics and International Economics, Salt Lake City, Utah, June 18–30; "Hidden Vacancies: Unpaid Work, Gender, and Employment Guarantee Schemes," GEM-IWG 7th International Conference on Gender, Macroeconomics and International Economics, Salt Lake City, Utah, July 2–3.

PHILIP ARESTIS *Senior Scholar*

Publications: *Alternative Perspectives on Economic Policies in the European Union* (with M. C. Sawyer), London: Palgrave Macmillan, 2006; "Understanding Economic Growth: New Directions in Theory and Policy" (with J. McCombie), introduction to special issue, *International Review of Applied Economics*, Vol. 20, No. 3, July; "Monetary Policy in the Euro Area" (with G. Chortareas), *Journal of Post Keynesian Economics*, Vol. 28, No. 3, Spring; "Innocent Frauds in Greenspan's Last Testimony" (with W. Mosler), *Journal of Post Keynesian Economics*, Vol. 28, No. 3, Spring; "Has Inflation Targeting Had Any Impact on Inflation?" (with A. Angeriz), *Journal of Post Keynesian Economics*, Vol. 28, No. 4, Summer; "Technical Efficiency and Financial Deepening in the Non OECD Economies" (with G. Chortareas and E. Desli), *International Review of Applied Economics*, Vol. 20, No. 3, July; "Is There a Role for Capital Controls?" (with J. Ferreiro and C. Gómes) in L-P. Rochon and S. Rossi, eds., *Monetary and Exchange Rate Systems: A Global View of Financial Crises*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "Interest Rates and the Real Economy" (with M. C. Sawyer) in C. Gnos and L-P. Rochon, eds., *Post-Keynesian Principles of Economic Policy*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "The Case for Fiscal Policy" (with M. C. Sawyer) in P. G. Berglund and M. Vernengo, eds., *The Means to Prosperity: Fiscal Policy Reconsidered*, Oxford: Routledge, Taylor, and Francis Group, 2006; "Reflections on the Experience of the Euro: Lessons for the Americas" (with M. C. Sawyer) in M. Vernengo, ed., *Monetary Integration and Dollarization: No Panacea,* Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "Alternatives for the Policy Framework of the Euro" (with M. C. Sawyer) in W. Mitchell, J. Muysken, and T. V. Veen, eds., *Growth and Cohesion in the European Union: The Impact of Macroeconomic Policy*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "Fed Policy Brings Economy Back to the Risks of 2000: Letter to the Editor" (with E. Karakitsos), *Financial Times*, June 20; "Macroeconomic Policy and the European Constitution" (with M. C. Sawyer), *International Papers in Political Economy* (New Series), 2006.

Presentations: "New Consensus Monetary Policy: Theory and Evidence," "Can the Euro Area Play a Stabilizing Role in Balancing the Global Imbalances?" and "Macroeconomic Policies in the EMU," University of Castilla-La Mancha, Albacete, Spain, April 24–25; "New Consensus Monetary Policy: Theory and Evidence," Central European University, Madrid, Spain, April 26; "Economic Policies in the New Consensus Macroeconomics," Instituto Estudios Fiscales (IEF), Madrid, Spain, April 27; "Europa no hace lo suficiente para corregir los desequilibrios mundiales," interview with Emilio Fernandez published in *La Tribuna De Albacete*, Spain, April 30; "The Bank of England Monetary Policy and the New Consensus Macroeconomics: An Assessment," International Colloquium, University of Bordeaux, France, May 5; "A Critical Appraisal of New Consensus Macroeconomics," University of Paris, France, May 9; "Fiscal Policy Within the New Consensus Macroeconomics Framework," conference, Recent Developments in Fiscal Policy, Treasury auditorium, HM Treasury/Government Economic Service, June 2; "The Monetary Policies of the Bank of England and the ECB" and "Central Bank Independence and Democracy," Banche Central E Principio Democratico conference, Instituto Italiano di Scienze Umane, Universita degli Studi si Napoli Federico II, Naples, Italy, June 27; "The Monetary Policies of the Bank of England and the ECB," Facolta di Scienze Economiche e

Aziendali, Universita Degli Studi del Sannio, Benevento, Italy, June 28.

CLAUDIO H. DOS SANTOS *Research Scholar*
Publications: "Keynesian Theorising during Hard Times: Stock Flow–Consistent Models as an Unexplored 'Frontier' of Keynesian Macroeconomics," *Cambridge Journal of Economics*, Vol. 30, Issue 4, July; "Distribution and Growth in a Post-Keynesian Stock Flow–Consistent Model" (with G. Zezza) in *Economic Growth and Distribution: On the Nature and Causes of the Wealth of Nations*, N. Salvadori, ed., Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006.

DIANE ELSON *Senior Scholar*
Publications: "Women's Rights Are Human Rights: Campaigns and Concepts," in L. Morris, ed., *Rights: Sociological Perspectives*, London: Routledge, 2006; *Monitoring Government Budgets for Compliance with CEDAW,* New York: UNIFEM, June; "Gender Equality, Public Finance, and Globalization" in J. Boyce, S. Cullenberg, P. Pattanaik, and R. Pollin, eds., *Human Development in the Era of Globalization*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., July 30.
Presentations: "International Financial Architecture: A View from the Kitchen," Seminario de Economia Fiscal y Financiera, Instituto de Investigaciones Economicas, Universidad Nacional Autonoma de Mexico, Mexico City, April 26; "Public Expenditure with a Gender Focus," Comison de Equidad y Genero, Camara de Disputados, Mexico City, April 26; "Gender-Aware Visions of the Economy," "Gender and Fiscal Policy," and "Gender Analysis of Public Expenditure," Instituto de Investigaciones Economicas, Universidad Nacional Autonoma de Mexico, Mexico City, April 27–28; "Macroeconomic Policy and Employment Generation: Gender Dimensions," UN Department of Economic and Social Affairs, Development Forum on Productive Employment and Decent Work, New York, May 8; "Trade Liberalization and Women Workers," conference on Action Research on Women Workers and Globalization, Manchester Metropolitan University, United Kingdom, June 16; "Gender and Macroeconomics—New Issues," IAFFE 15th Annual Conference on Feminist Economics, Sydney, Australia, July 7–9; Unpaid Work: Creating Social Wealth or Subsidizing Patriarchy and Profits," Research School of Social Sciences, Australian National University, Canberra, July 11; "Budgeting for Women's Rights," ACT Council of Social Service, Canberra, July 13; "Unpaid Work: From Recognition to Transformation," Hawke Research Institute, University of South Australia, Adelaide, July 21; "Gender Analysis of Government Budgets," Japan Chapter of International Association for Feminist Economics, Ochanomizu University, Tokyo, July 29; Keynote address, "Investing in Poor Women to Achieve the Millennium Development Goals," UNDP, Tokyo, July 31.

CAREN A. GROWN *Senior Scholar*
Publications: "Introduction" and "Trade Liberalization and Reproductive Health: A Framework for Understanding the Linkages" in *Trading Women's Health: Trade Liberalization and Reproductive Health in Developing Countries,* C. Grown, E. Braunstein, and A. Malhotra, eds., London: Zed Books, June; "Gender Equity and Globalization: Macroeconomic Policy for Developing Countries" (with S. Seguino), *Journal of International Development*, May 30.
Presentations: "Putting Women at the Center of Development," International Women's Day Conference, Simon's Rock College of Bard, Great Barrington, Massachusetts, March 3–4; "Women Workers in the Global Economy," Columbia University, New York, March 10; "Gender Equality, Poverty, and the Millennium Development Goals," Cornell University, Ithaca, New York, March 31, and New School for Social Research, New York, May 3; "Quick-Impact Initiatives and Financing Requirements for Achieving Gender Equality in Asia and the Pacific," ADB Forum on Gender and Development, Asian Development Bank, Manila, Philippines, May 29–31; "Gender Issues in Taxation" and "Millennium Development Goals and PRSPs," GEM-IWG 4th International Intensive Course, Knowledge Networking Program in Engendering Macroeconomics and International Economics, Salt Lake City, Utah, June 18–30; "Financing Requirements for Achieving Gender Equality in Low-Income Countries" and "Gender and Public Finance: New Directions and Research," IAFFE 15th Annual Conference on Feminist Economics, Sydney, Australia, July 7–9.

GREG HANNSGEN *Research Scholar*
Publication: "Borrowing Alone: The Theory and Policy Implications of the Commodification of Finance" in *Ethics and the Market: Insights from Social Economics*, B. J. Clary, W. Dolfsma, and D. M. Figart, eds., New York: Routledge.

DIMITRI B. PAPADIMITRIOU *President*

Publications: "Thinking the Unthinkable: Can Trade Protection Be Benign?" (with W. Godley and G. Zezza), *The Milken Institute Review*, Second Quarter, 2006; "Government Effects on the Distribution of Income" in *The Distributional Effects of Government Spending and Taxation*, D. B. Papadimitriou, ed., Houndmills, Basingstoke, Hampshire, U.K. and New York, N.Y.: Palgrave Macmillan, 2006.

Presentations: Interview with David R. Francis regarding the current account deficit, *The Christian Science Monitor*, March 14; interview with Greg Robb regarding the economy, the federal reserve, and the war, MarketWatch.com, April 5; panelist at the AFL-CIO and the U.S. Business and Industry Council conference, "Trade Summit 2006: Crisis and Opportunity," National Press Club, Washington, D.C., July 12.

JOEL PERLMANN *Senior Scholar*

Presentations: Comments on *The Immigrant Threat* by Leo Lucassen at "Author Meets Critics" session, European Social Science History Conference, Amsterdam, March 23; "Discipline and Dissent in Ben Gurion's Labor Party, 1932," European Social Science History Conference, Amsterdam, March 24; "Racializing and Deracializing the Immigrant, 1898–1912," Immigration conference, Ben Gurion University of the Negev, Israel, May 23.

EDWARD N. WOLFF *Senior Scholar*

Publications: *Does Education Really Help? Skill, Work, and Inequality,* Oxford: Oxford University Press, 2006; "Skills, Computerization, and Income Inequality in the Postwar U.S. Economy" in *Research on Economic Inequality: Dynamics of Inequality and Poverty*, J. Creedy and G. Kalb, eds., Elsevier (JAI) Press, Vol. 13, 2006.

Presentations: "Recent Trends in Living Standards," conference, Economic Inequality and the Prospect of Democracy: Global Perspectives, William Paterson University, Wayne, New Jersey, April 13; Carnegie-Rochester Public Policy Conference, "The Retirement Wealth of the Baby Boom Generation," Rochester, New York, April 21–22; "Estimating the World Distribution of Household Wealth" and discussant of "Wealth Distribution in OECD Countries" by M. Jantti and E. Sierminska, UNU-WIDER project meeting, Personal Assets from a Global Perspective, Helsinki, Finland, May 4–6; "Inheritances and Wealth Inequality," workshop, The Transmission of Inequality, Russell Sage Foundation, New York, May 8; "Household Wealth and the Measurement of Economic Well-Being in the United States," European Society of Population Economics 20th annual conference, Verona, Italy, June 22–24.

L. RANDALL WRAY *Senior Scholar*

Publications: "International Aspects of Current Monetary Policy" in *The New Monetary Policy: Implications and Relevance*, P. Arestis, M. Baddeley, and J. McCombie, eds., Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "When Are Interest Rates Exogenous?" in *Complexity, Endogenous Money and Macroeconomic Theory: Essays in Honour of Basil J. Moore*, M. Setterfield, ed., Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "To Fix or to Float: Theoretical and Pragmatic Considerations," chapter in L-P. Rochon and S. Rossi, eds., *Monetary and Exchange Rate Systems: A Global View of Financial Crises*," Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "Demographics and Social Security," *Review of Political Economy*, June; "Keynes's Approach to Money: An Assessment after 70 years," *Atlantic Economic Journal*, Vol. 34, No. 2, June; "Currency Sovereignty and Policy Independence: The Case of Argentina," *Economic and Political Weekly*, Vol. XLI, No. 19, May 13–19; "Argentina's Jefes Program: Lessons of an Employment Guarantee," *Economic and Political Weekly*, Vol. XLI, No. 23, June 10–16; "Flexible Exchange Rates, Fed Behavior, and Demand Constrained Growth in the USA" in *International Review of Applied Economics*, Vol. 20, No. 3, July; "A Review of Theories of Financial Disturbance: An Examination of Critical Theories of Finance from Adam Smith to the Present Day, by Jan Toporowski," *Journal of Economic Issues*, XL, No. 3, September.

Presentations: "Extending Minsky's Classifications of Fragility to Government and the Open Economy," Fragilidad financiera y el desarrollo económico: Un homenaje a Hyman Minsky, National Autonomous University of Mexico (UNAM), May 11–12; "Extending Minsky's Classifications of Fragility to Government and the Open Economy," Interdisciplinary Summer School, University of Missouri–Kansas City, June 18–24; "Flexible Exchange Rates, Central Bank Behavior, and Demand-Constrained Growth: The Case of the United States," University of Rome-La Sapienza, June 27; "Keynes's General Theory after 70 Years" and "Keynes's Approach to Money after 70 Years: What Can Be Recovered?" conference, International Economic Association, Siena, Italy, July 3–6; "Employer of Last Resort: A Case Study of Argentina's Jefes Program," "Keynes's Approach to Money: An Assessment after 70 Years," "The Twin Deficits and Sustainability of the U.S. Expansion," and "Basel II and Financial Instability: A Minskyan Approach," University of Paris–South, July 10–13.

GENNARO ZEZZA *Research Scholar*

Publications: "Distribution and Growth in a Post-Keynesian Stock Flow–Consistent Model" (with C. H. Dos Santos) in *Economic Growth and Distribution: On the Nature and Causes of the Wealth of Nations*, N. Salvadori, ed., Cheltenham, U.K.: Edward Elgar Publishing Ltd., 2006; "Thinking the Unthinkable: Can Trade Protection Be Benign?" (with W. Godley and D. B. Papadimitriou), *The Milken Institute Review*, Second Quarter, 2006.

Presentation: "Different Approaches to Stock-flow Norms," Developments in Economic Theory and Policy, third international conference, Bilbao, Spain, July 6–7.

Recent Levy Institute Publications

STRATEGIC ANALYSES

Can the Growth in the U.S. Current Account Deficit Be Sustained? The Growing Burden of Servicing Foreign-Owned U.S. Debt

DIMITRI B. PAPADIMITRIOU, EDWARD CHILCOTE, and GENNARO ZEZZA

May 2006

Are Housing Prices, Household Debt, and Growth Sustainable?

DIMITRI B. PAPADIMITRIOU, EDWARD CHILCOTE, and GENNARO ZEZZA

January 2006

LEVY INSTITUTE MEASURE OF ECONOMIC WELL-BEING

Interim Report 2005: The Effects of Government Deficits and the 2001–02 Recession on Well-Being

EDWARD N. WOLFF, AJIT ZACHARIAS, and HYUNSUB KUM

May 2005

Economic Well-Being in U.S. Regions and the Red and Blue States

EDWARD N. WOLFF, and AJIT ZACHARIAS

March 2005

POLICY NOTES

The Burden of Aging: Much Ado About Nothing, or Little to Do About Something?

L. RANDALL WRAY

2006/5

***Debt and Lending: A* Cri de Coeur**

WYNNE GODLEY and GENNARO ZEZZA

2006/4

Twin Deficits and Sustainability

L. RANDALL WRAY

2006/3

PUBLIC POLICY BRIEFS

The Fallacy of the Revised Bretton Woods Hypothesis: Why Today's International Financial System Is Unsustainable

THOMAS I. PALLEY

No. 85, June 2006

Can Basel II Enhance Financial Stability? A Pessimistic View

L. RANDALL WRAY

No. 84, May 2006

Reforming Deposit Insurance: The Case to Replace FDIC Protection with Self-Insurance

PANOS KONSTAS

No. 83, 2006

The *Report* and all other Levy Institute publications are available online at the Institute website, www.levy.org.

To order a Levy Institute publication, call 845-758-7700 or 202-887-8464 (in Washington, D.C.), fax 845-758-1149, e-mail info@levy.org, write The Levy Economics Institute of Bard College, Blithewood, PO Box 5000, Annandale-on-Hudson, NY 12504-5000, or visit our website.

The Levy Economics Institute of Bard College
Blithewood
PO Box 5000
Annandale-on-Hudson, NY 12504-5000

Address Service Requested