

## INDEX

- Accelerator effect, 221
- Accountability, and security market development, 311
- Adjustable Rate Mortgage (ARM), 285–286
- Age
  - and consumption function, 10, 35–36, 45n.67, 48
  - and consumption-income relation, 39n.23
  - and elasticity of consumption with respect to income, 28
  - and marginal propensity to consume, 11–12
  - and marginal propensity to consume with respect to assets, 30
- Age-wealth profile, in LCH test, 149–153
- Aggregate consumption function
  - a priori estimates of coefficients of, 51–52
  - derivation of, 48–51
  - and expected income, 52
- Aggregate demand
  - in functional finance, 365
  - in Keynesian analysis, 346
  - and unemployment in Europe, 240, 244, 250
  - in Modigliani interview, 370
  - and puzzle of 1980s, 261
- Aggregate demand policies, 209, 214, 221–224, 236
  - and European Central Bank role, 224–226
  - and United Kingdom, 220
- Aggregate saving, and transitory income, 115
- Alexander, Sidney, 366, 374
- Algeria, income and savings in, 134
- Allais, Maurice, 363
- Allen, R. G. D., 365
- American Common Market, 323
- American Economic Association, Presidential Address to, 377
- Ando, Albert, 379
- Antifascism, of Modigliani, 364
- A priori estimates, of coefficient of aggregate consumption function, 51–52
- Argentina, income and savings in, 134
- Arithmetic mean, vs. geometric mean, 300
- Ascoli, Max, 364
- Asian security markets
  - bubble in (Modigliani interview), 371
  - potential for development of, 314–316
- Assets. *See also* Durable goods
  - accumulation of and uncertainty, 6, 30–31
  - and consumption, 29–30
  - and downward revaluation of market value of assets, 76n.32
  - and income increase, 17
  - and marginal propensity to consume, 66
  - net worth as, 10, 29, 36
  - and saving, 30
  - stationary equilibrium assets, 14
- Association for Investment Management and Research (AIMR), 300
- Auctioning, of employment vouchers and unemployment benefits, 235
- Australia
  - saving rates for, 108–111, 112–114
  - saving rates changes for, 129
- Austria
  - saving rates for, 108–111, 112–114
  - saving rates changes for, 129
- Average annual expected income, 50
- Baby pensions, 155
- Bach, O. L., 366
- Bangladesh, income and savings in, 134
- Banks
  - as investment organizations, 311–312
  - and rapid development, 306
- Barbados, income and savings in, 134
- Bard College of Columbia University, 366
- Barnett, William, 364
- Barro, Robert, 375
- Barro hypothesis, 121, 125–126, 128, 139, 375–377
- Beals, Ralph, 105n.33

- Belgium
  - and exchange rates, 277
  - and floating currency, 276
  - and interest rates, 278, 280
  - monetary stance of, 279
  - saving rates for, 108–111, 112–114
  - saving rates changes for, 129
  - unemployment in, 239
- Benefit Transfer Program (BTP), 227, 233–235
- Benin, income and savings in, 134
- Bequest motive, 91, 118. *See also* Heirs, saving for benefit of vs. bequest amount, 167–168
- Bequests, 91
  - and absence of negative saving, 157
  - in Japan, 325
  - in Life-Cycle model, 118–119, 165–168, 168, 379, 381
  - from precautionary motive vs. true bequest motive, 118
  - and utility function, 48–49
- Beveridge Curve, 246–247, 248
  - alternative decomposition of effect of availability of jobs and shifts in, 271–274
- Biases, in estimation procedures, 54, 60, 61–62, 71–72
- Birth-control policy, of China, 179, 181
- Birth rate, in China, 181
- Bolivia, income and savings in, 134
- Botswana
  - income and savings in, 134
  - national saving rate of, 199, 202
- Bowen, Howard H., 367
- Bowen, W. G., 88
- Brady, Dorothy S., 27, 367
- Brazil, income and savings in, 134
- Bruxelles Commission, 223–224
- Bubbles, stock market, 371
- Buchanan, J. M., 79, 82, 83, 89
- Budget constraint, 5
- Bundesbank
  - as central bank for Union, 379
  - and EMS, 260
  - and interest rate cuts, 277
  - high interest rates of, 240, 263
  - and monetary policy, 345
    - errors in, 358
  - and unemployment, 275, 276
  - and unemployment remedies, 270
- Burbank (head of Harvard Economics Department), 366
- Burkina Faso, income and savings in, 134
- Burma, income and savings in, 134
- Burundi, income and savings in, 134
- Business-cycle theory, 374–375
- Cameroon, income and savings in, 134
- Canada
  - savings rates for, 108–111, 112–114
  - savings rates changes in, 129
- Cape Verde, income and savings in, 134
- Capital formation reduction, and national debt, 80, 83, 85, 86, 89, 90, 93, 99, 101
- Capitalism
  - and European unemployment, 212
  - and regulation, 316n.4
- Capital-output ratio, 69
- Carnegie Institute of Technology (now Carnegie Mellon), 366
- Cash income
  - as irrelevant and misleading, 143
  - in NIA definition, 142
- Central African Republic, income and savings in, 134
- Central Bank(s). *See also* European Central Bank
  - and accommodation to nominal wage increase, 254–255, 266
  - and fiscal policy, 356
  - and Germany, 264
  - and government credibility, 312
  - and inflation vs. unemployment, 224–225, 257, 358, 372–373
  - and interest rate as tool, 354
  - of Italy, 370
  - and money supply in Keynesian analysis, 252
  - and puzzle of 1980s, 258, 260
  - and real vs. nominal money supply, 357–358
  - and stock of money, 330
  - and unemployment remedies, 270, 375
- Centrally planned economies, and question of government intervention, 307
- Chile, income and savings in, 134
- China
  - birth rate of, 182
  - data limitation for, 183
  - income and savings in, 134
  - and Life-Cycle Hypothesis, 173–174, 179, 202
    - basic data in study of, 174–178, 203–204
    - and demographic structure, 180–182
    - and estimation of saving ratio, 187–193
    - and estimation tests for saving ratio, 193–198
  - and income growth, 134, 199–202
  - and inflation, 183–187
  - and Keynesian model, 178–179
  - and modeling of permanent variation in per capita income growth rate, 183
  - savings increase in, xii
  - savings rate for (national), 199, 201–202
  - savings rate for (private), 199

- Coefficients of the aggregate consumption function, a priori estimates of, 51
- Cohen, Rich, 382
- Cohort effects, 146, 150, 151
  - vs. age effect, 162
  - in wealth, 152
- Co-integration, 187
- Colombia, income and savings in, 134
- Commodity basket, 283, 332–333
- Communist regimes, 316n.4
- Comoros, income and savings in, 134
- Competition with low-wage countries, and European unemployment, 212
- Conditional negative income taxes, 232–233
- Conspicuous consumption, 45n.58
- Consumables, price level of, 4, 7
- Consumer choice, theory of, 4
- Consumption
  - age profile of, 155
  - and assets, 29–30
  - in China, 175–176
    - sources for, 203
  - definition of, 7
  - in SHIW, 170–171
  - and utility function, 8–9
- Consumption function, 3, 19
  - aggregate, 48–52
    - and downward revaluation of market value of assets, 76n.32
  - individual, 10–12
  - Keynesian, 3, 64–66, 68, 75n.26, 345
  - and Sterling effect in LCH framework, 120
  - theory of, 31
- Consumption function model (Modigliani and Brumberg), 4, 47
  - and aggregate consumption function, 48–51
  - and a priori estimates of coefficients of aggregate consumption function, 51–52
  - and cyclical vs. long-run behavior of consumption-income ratio, 67–70
  - and Duesenberry-Modigliani consumption function, 70
  - empirical verification and estimation of, 54–63
    - with addition of variables, 75n.26
    - bias in estimation of, 54, 60, 61–62, 71–72
    - high serial correlation of residuals in, 74n.21
    - and 1900–1928 statistics, 70–71
  - implications of and empirical evidence on, 10–33
  - and Klein's analysis, 33–36
  - and measurement of expected income, 52–54
  - and saving, 91
  - and saving-income ratio, 67
  - and standard Keynesian consumption functions, 64–66, 68
  - theoretical foundations of, 4–10
- Consumption-income relationship (ratio)
  - cross-section, 12–13, 17–24, 40n.23
  - cyclical vs. long-run behavior of, 67–70
  - expected income in, 58
  - and income over short interval, 26–27
  - in Lifetime Cycle Hypothesis, 179
  - in nonstationary household, 15–16, 18
  - residual error in and savings-income relationship, 72
  - in stationary household, 13–15, 20, 38–39n.23
- Corporate finance, Modigliani-Miller theorem on, 373–374
- Costa Rica, income and savings in, 134
- Cost of capital
  - investment and output dependent on, 349–350
  - in Modigliani interview, 373
- Cost-of-living adjustment, uniform (Italy), 383
- Côte d'Ivoire, income and savings in, 134
- Counter-cyclical measure, debt as, 100–102
- Credit
  - in Modigliani interview, 369–370
  - and underdeveloped regions, 227–228
  - and unemployed, 233
- Cross-section consumption-income relation, 12–13, 17–24, 40n.23
- Cross-section data, 3
- Cross-section savings-income relation, and marginal propensity to save, 32–33
- Crowding out, xi, 222, 356, 376. *See also* Capital formation reduction
- Cultural values, and economic organization, 308
- Culture, and saving ratios, 200
- Currency speculation, 277
- Current Account Budget, 222
- Cyclically balanced budget, 102
- Cyprus, income and savings in, 134
- Deadweight debt or deficit, 84, 103n.5
- Deceased effect, 164, 166–167, 168
- Deficit (debt) financing. *See also* National debt, burden of
  - investments and current accounts treated identically in, 221
  - in Keynesian analysis of unemployment, 356
  - and Life Cycle model, 120
  - and Ricardian equivalence, 376–377
  - vs. tax financing, 89–90, 102, 104n.27
  - for impact vs. total effects, 90–94, 96
  - and war financing, 99
  - in U.S., 324–325
  - under Reagan, 322, 376
- Demand, aggregate. *See* Aggregate demand
- Demand management policy
  - errors in, 214–215
  - and inflation, 209
  - for unemployment, 209, 213, 214

- Demand and supply, "law" of, 328–329
- Demographic structure or socio-demographic variables, and saving rate, 118
  - in China, 180–182, 196, 200–201
- Denmark
  - and exchange rates, 277
  - and interest rates, 280
  - monetary stance of, 279
  - saving rates for, 108–111, 112–114
  - saving rates changes for, 129
- Depression
  - Great Depression, 355, 356, 375
  - and national debt burden, 83, 100–102
- Deutsche Mark, 275
- Developing countries
  - and European jobs, 245
  - financial liberalization in, 313, 315
  - and government involvement in economy, 306–308
  - and LCH applied to China, 173
  - and saving–income ratio, 131–137
  - security markets in, 308
- Diamond, Peter, 363
- Discretionary saving, 143, 144, 153, 168
  - by age and cohort, 159
  - age profile of, 157, 158, 159, 160
  - and life cycle, 156
  - and mandatory saving, 168
  - "Personal" (NIA), 143
- Discretionary wealth, 149, 168
  - in Italian survey, 149
  - age profile of, 151, 153, 158, 166, 168
  - cohort effect of, 152
  - of older cohorts, 150
  - in SHIW, 170–171
- Displacement effect, 376
- Disposable income, 153–154
  - age profile of, 155
  - alternative, 145
  - in China, 177
  - conventional, 145
  - vs. earned, 143
  - and life cycle, 156
  - in SHIW, 170–171
- Dissaving
  - definition of, 7
  - and elderly, 141, 380
  - as purposive endeavor, 91
- Dollar, and ECB, 225–226
- Dominican Republic, income and savings in, 134
- Draghi, Mario (Director General of Treasury of Italy), 378
- Drèze, J., 241, 243
- Duesenberry, James, 366
- Duesenberry-Modigliani consumption function, 70
- Durable goods, 6
  - as consumption, 45n.58
  - determinants of acquisition of, 31
  - postwar purchase of, 29
- Durand, David, 373
- Early retirement, 217–218
- Earned income, 153–154
  - age profile of, 155
  - vs. disposable, 143
  - retirement, 155
  - in SHIW, 170
- Earned Income Tax Credit (EITC), 232–233
- East Asia. *See* Asian security markets
- ECB. *See* European Central Bank
- Econometric model, 378
- Economic analysis, normative, 305
- Economic legislation. *See* Legislation, economic
- Economics, theory vs. policy in, 382
- Economists, as public servants (Modigliani interview), 382
- "Economists' Manifesto on Unemployment in the European Union, An," 209, 363–364, 383. *See also* Unemployment in European Union, manifesto on
- Ecuador, income and savings in, 134
- Education, and saving ratios, 200
- Efficiency
  - as damaged by dependence on private enforcement, 310
  - vs. equity, 306
- Egypt, income and savings in, 134
- EIB (European Investment Bank), 223
- Elasticity of consumption with respect to income
  - and age, 28
  - and income stability, 25, 26
  - and index of accustomed level, 27
- Elasticity of income expectations, 21–22
  - and age, 28
- El Salvador, income and savings in, 134
- E/M (ratio of employed to minors), 181, 182, 188
- Employment vouchers, 233–234
  - auctioning of, 235–236
- EMS (European Monetary System) in 1990s, 261–264, 278
  - costly participation in, 262–263
  - end of proposed, 276
  - in Modigliani interview, 379
  - and unemployment, 275
- EMU project, 280
- Enforcement of private arrangements, by legal rules, 305, 308, 310
- Entity theory of valuation, 373
- Entrepreneurs, regional paucity of, 227

- Equilibrium
    - market, 328–329, 334
    - money market, 329–330
    - in Keynesian analysis, 341–342
    - under-employment (Keynesian), 341, 347, 350–352
  - Equity, vs. efficiency, 306
  - Equity risk premium, 293
  - ERM, 275–276
    - demise of, 277
  - Estate motive, 7–8
  - Estimation procedures, flaws in, 54, 60, 61–62, 71–72
  - Ethiopia, income and savings in, 134
  - Euro
    - and aggregate demand policies, 214
    - and Italy, 383
    - Modigliani as supporter of, 379
  - Europe. *See also specific countries*
    - disposable vs. earned income in (Western Europe), 143
    - Modigliani's reputation in, 363–364
  - European Central Bank (ECB), 224–226
    - inflation over unemployment as concern of, 224–225, 358
    - and monetary policy, 224, 225, 345
    - errors in, 358, 379
    - and unemployment (Modigliani interview), 371
  - European Commission, and labor market reforms, 232
  - European Community
    - common market institutions of, 276
    - and puzzle of 1980s, 258, 259
  - European economy, xii
  - European Investment Bank (EIB), 223
  - European Structural Funds, 222–223
  - European unemployment. *See* Unemployment
    - in Europe; Unemployment in European Union, manifesto on
  - European Union, unemployment in. *See* Unemployment in European Union, manifesto on
  - Exchange rates or regimes
    - change of, 322–323, 324
    - and deficit, 325
    - as demand management tool (EU), 223
    - and ERM demise, 277
    - and Euro, 379
  - fixed
    - and employer's mark-up, 243
    - and unemployment, 240
  - fixed vs. floating, 378–379
  - and foreign capital, 322–323
  - and interest rates, 240
  - and transfer of resources, 263
  - and transnational groups, 324
  - and wage rigidity, 358, 378–379
- Expectations, income
    - average annual expected income, 50
    - elasticity of, 21–22
    - inaccessibility of, 34
    - measurement of expected income, 52–54
  - Externalities
    - and economic legislation, 305
    - knowledge as, 307
  - Family, and life-cycle saving in China, 181, 200
  - Family size, life cycle of, 156
  - Fazio, Fabio, (Governor of Bank of Italy), 378
  - Federal Reserve System, U.S., 224
  - and Great Depression, 375
  - and Modigliani, 363
  - and MPS quarterly macroeconomic model, 378
  - Fiduciary responsibility, and security market development, 311
  - Fiji, income and savings in, 134
  - Finance, corporate, Modigliani-Miller theorem on, 373–374
  - Finance, international, 378
  - Financial assets, and liquidity preference, 342–344
  - “Financial deepening” school, 307–308
  - Financial development. *See also* Developing countries; Growth
    - and government intervention, 306–308
    - institutional framework for, 308
  - Financial liberalization. *See* Liberalization, financial
  - Financial markets. *See* Security markets
  - Financial superstructure, development of, 313
  - Financial Times*, 262
  - Finland
    - saving rates for, 108–111, 112–114
    - saving rates changes for, 129
  - Fiscal levies, 228–229
  - Fiscal policy, 356–357
    - as demand management tool (EU), 223
    - uses of (Modigliani interview), 377
  - Fischer, Stanley, 378, 382
  - Fisher, Irving, 111, 330
  - Fisher, Janet, 28
  - Fisher's Law, 287, 287–288
  - Fixed mark-up model, 337, 340, 353
  - Fixed-term jobs, and supply-side measures, 230
  - Four quadrants analysis, 347, 349
    - and dependence of income on investment, 347–349
    - and dependence of investment and output on capital, 349–350
    - and fiscal policy, 356
    - and underemployment equilibrium, 351

- France  
 and exchange rates, 277  
 and German monetary policy (1990s), 261, 262  
 and floating currency, 276  
 growth as aim of, 278  
 hard currency of, 275  
 and interest rates, 280  
 labor market reforms in, 219  
 low growth in, 319  
 monetary stance of, 279  
 and puzzle of 1980s, 258, 259, 260  
 saving rates for, 108–111, 112–114, 201  
 saving rates changes for, 129, 131  
 social security in, 211  
 unemployment in, 236n.2, 239, 240  
 and job availability, 248, 249  
 French Mortgage, 287, 288  
 Friedman, Milton, 375, 377, 381  
 permanent income hypothesis of, 47, 111  
 Friedman, Rose D., 27  
 Full employment, and burden of national debt, 80  
 Functional finance principle, 82, 85, 102, 365
- Gabon, income and savings in, 134  
 Gambia, income and savings in, 134  
*General Theory of Employment, Interest, and Money*, *The* (Keynes), 17, 327, 334  
 Geometric mean, vs. arithmetic mean, 300  
 Germany  
 and Beveridge Shift, 272, 273  
 and Bundesbank recession program, 276  
 low growth in, 319, 320  
 monetary stance of, 279  
 1990s monetary policy of, 261–262, 263  
 and puzzle of 1980s, 258, 259  
 saving rates for, 108–111, 112–114  
 saving rates changes for, 129  
 taxation and unemployment in, 211  
 unemployment and job availability in, 248, 249  
 unification of West and East, 261  
 and reconstruction of East Germany, 320  
 Gerschenkron, A., 306  
 Ghana, income and savings in, 134  
 Goodwin, Richard, 366  
 Government, in Life-Cycle model, 119–122  
 Government debt, 376. *See also* Deficit financing  
 Government intervention  
 and credibility of macroeconomic policy, 312–313  
 and financial development, 306–308  
 historical experience of, 309–310  
 importance of, 314  
 and legal rules, 308–309 (*see also* Legal rules)
- Government investment program, 222  
 Graduated Payment Mortgage (GPM), 286  
 Grange, Red, 367  
 Great Depression  
 and fiscal policy, 356  
 and Keynes on aggregate demand, 214  
 and liquidity trap, 355  
 and real money supply, 375  
 Greece  
 income and savings in, 134  
 saving rates changes in, 131  
 unemployment in, 239  
 Greenland  
 saving rates for, 108–111, 112–114  
 saving rates changes for, 129  
 Growth. *See also* Financial development;  
 Income growth  
 and investment, 325  
 problems of (1990s), 319–321  
 and savings ratio for China (long-term), 195–196  
 Growth theory, and government intervention, 307  
 Growth trend  
 for China, 191  
 and saving ratio, 193  
 Guanxi, 310  
 Guatemala, income and savings in, 134
- Haberler, Gottfried, 366  
 Habit persistence, and savings under income increase, 17–18  
 Haiti, income and savings in, 134  
 Harvard University, 366  
 Heirs, saving for benefit of, 5. *See also* Bequests  
 Hicks, Sir John, 366, 374  
 Hobbes Principle, 305  
 Holland. *See* Netherlands  
 Honduras, income and savings in, 134  
 Hong Kong, income and savings in, 134  
 Household, theory of, 5–6, 7  
 assumptions on, 7–10, 35  
 Households (consumption-income relationship)  
 nonstationary, 15–16, 18  
 stationary, 13–15, 20, 38–39n.23  
 Human capital, 307  
 Hurd, Michael, 164, 167  
 Hurwicz, Leo, 367
- Icelands  
 saving rates for, 108–111, 112–114, 199, 201  
 saving rates changes for, 129  
 Income. *See also* Consumption-income relationship; Wealth-income ratio  
 age profile of, 155  
 average annual expected, 50

- cash, 142, 143
- in China, 175–176, 177
- and consumption function, 3
- current vs. life-cycle, 381
- disposable, 153–154, 155, 156 (*see also* Disposable income)
- disposable vs. earned, 143
- earned, 153–154, 155, 170
- as earned family income (net of personal taxes) less family consumption, 142, 143
- expectations of, 21–22, 34, 50, 52–54
- measurement of, 52–54
- inflation and measurement of, 183–186
- and investment, 347–349
- labor vs. property, 65
- and Life-Cycle Hypothesis, 131
- and Bosworth model, 139
- in developing countries, 131–137
- multiple definitions of, 142
- and net worth, 65, 68–69
- nominal (Keynesian analysis), 367–368
- nonpermanent component of, 15
- and savings, 32, 196 (*see also* Saving-income ratio)
- in China, 196, 200
- stability of, 25–26
- transitory, 111, 348, 380
- Income-asset-age relation, equilibrium, 13–16
- Income effect, 138
- Income growth
  - and Life Cycle Model, 115–117, 119
  - modeling permanent variation in, 183
  - and savings rate, 179, 381
  - in China, 199
- Income redistribution, and propensity to save, 32
- Indexation, 283
- India, income and savings in, 134
- Individual consumption function, 10–12
- Indonesia, income and savings in, 134
- Industrial districts, 227
- Inflation
  - and capital gains or losses, 161
  - and Central Bank accommodation to nominal wage increase, 254
  - in Italy, 256
  - in China, 194
  - decrease in, 224–225
  - demand management against, 209
  - disruptive effects of, 283
  - and ECB, 224, 225, 345, 358
  - Germany's aversion toward, 320
  - inherent tendency to (Modigliani interview), 372
  - and interest rates (China), 197–198
  - and lending contracts, 284–288
  - and Life-Cycle Hypothesis, 137–138, 139
  - and measurement of income and savings, 183–186
  - in Modigliani interview, 382
  - national debt reduced by, 98
  - need to avoid (1993), 278
  - as neutral in effect, 283, 284
  - and oil crises, 257–258, 322
  - programming of, 266–267, 268–269
  - and puzzle of 1980s, 260
  - and real money supply, 240
  - and real vs. nominal wage rigidity, 253
  - and saving, 186–187, 191, 382
  - taxes as preventing, 82
  - vs. unemployment as Central Bank concern, 224–225, 257, 358, 372–373
  - from unemployment measures, 215
  - and unemployment policies proposed, 218
  - and war financing, 100
  - and work sharing, 218
- Inflation correction, 126
- Inflation illusion, 138, 186, 197, 283, 288
- Inflation Proof Mortgage (IPM), 287–288
- Information ratio, 301–302
- Interest rates
  - and depreciation of currencies, 280
  - and European unemployment, 240, 275
  - and expansion, 278
  - and inflation, 285
  - in China, 197–198
- inflation correction component of, 126
- and investment, 344–345
- in Keynesian analysis of unemployment, 354–355
- and Modigliani interview, 368–369
- and Life-Cycle Hypothesis, 137–138, 139
- and liquidity preference, 343, 344
- as measure of national debt burden, 80, 86, 88–89
- nominal vs. Fisherian real, 185, 382
- and savings-income ratio, 107
- targeting of, 280
- Intergenerational accounting framework, 145
- inter-generation equity, and deadweight deficit, 102
- Intergenerations transfers, 165
- national debt as, 81, 97
- International finance, 378
- International Finance Corporation, 314
- International macroeconomics and finance, 358
- as Keynesian invention, 342
- International Monetary Fund, 132, 196, 202
- International monetary system, 379
- Inter vivos transfers, 161–162, 164, 165, 167
- age profile of, 162

- Investment, 60–61
    - decline in, 325
    - as dependent on cost of capital, 349–350
    - by EIB, 223
    - and European unemployment, 215
    - and income, 347–349
    - and monetary policy, 224
    - and saving-investment identity, 346
    - stimulating of, 221
  - Investment function, 344–345, 373
  - Investment multiplier, 346–347
  - Ireland
    - saving rates for, 108–111, 112–114
    - saving rates changes for, 129
    - unemployment in, 239
  - Israel, income and savings in, 134
  - Italy
    - average-wage escalator clause in, 383
    - in case study (Central Bank accommodation), 255–256
    - credit improvements in, 227
    - and deficit effect, 139n.3
    - disposable vs. earned income in, 143
    - and Euro requirements, 383
    - growth strategy of, 280
    - industrial districts in, 227
    - infrastructural investments in, 223
    - labor market reforms in, 219
    - Life-Cycle Hypothesis test in, 143–146, 168
    - and age-wealth profile, 149–53, 154
    - dataset for, 146–149
    - and discrepancy between saving and wealth measures, 157–168
    - saving estimates with flow data, 153–157
  - Modigliani's early life in, 364
  - Modigliani's reputation in, 363
  - monetary stance of, 279
  - saving rates for, 108–111, 112–114, 199, 201
  - saving rates changes for, 129
  - social security in, 211
  - tripartite compact to end inflation in, 255, 256, 266, 372
  - unemployment in, 239, 244, 370
- Jamaica, income and savings in, 134
- Japan
  - and exchange rates, 324
  - growth period of (1960s), 321
  - growth rate of, 202, 314
  - and liquidity trap, 355
  - low growth in, 319, 320–321
  - past and future role of, 324–325
  - saving rates for, 108–111, 112–114, 199, 201, 325
  - saving rates changes in, 129, 131
  - stock market in, 320
- Jensen's alpha, 290, 295
- Job creation policies, 228
- Job security legislation, 216–217
- reform of, 230
- Jordan, income and savings in, 134
- Kenya, income and savings in, 134
- Keynes, John Maynard
  - on income-consumption relation, 3, 32
  - as "interest skeptic," 344
  - on labor and real wage, 372
  - and ostentatious durables, 45n.58
  - and unemployment, 239
- Keynesian analysis
  - and burden of national debt, 83, 85–86
  - and no-burden argument, 81–82
  - and Chinese experience, 191–192, 195
  - and classic model, 327, 328
  - in Modigliani interview, 367–368
  - and flows vs. stocks, 79
  - fundamental message of, 356–357
  - and government, 119
  - and income-saving relation, 137
  - and LCH applied to China, 174
  - Modigliani on (interview), 370
  - and saving behavior, 178–179
  - and tax financing, 89
- Keynesian analysis of unemployment, 327–328, 358
  - case studies in, 255–261
  - and classical model of market equilibrium, 328–329
  - generalization of, 334
  - and classical monetary theory, 331–333, 334
  - and EMS in 1990s, 261–264
  - and fiscal policy, 356–357
  - and four quadrants analysis, 347, 349
  - and income as dependent on investment, 347–349
  - and interest rate remedy, 354–355
  - and Monetarist controversy, 355
  - investment and output dependent on cost of capital, 349–350
  - and liquidity trap, 355
  - and "long run," 352
  - and mechanism for clearing money market (monetary mechanism), 250–252, 327, 331, 342
  - investment function, 344–345
  - investment multiplier, 346–347
  - liquidity preference, 342–344
  - saving (and consumption) function, 345
  - saving-investment identity, 346
  - and money market equilibrium, 329–330, 341
  - nominal money supply increase as remedy, 354
  - and nominal vs. real wage rigidity, 357–358



- and open economy, 358
- and price flexibility, 329
- underemployment equilibrium, 350–352
- wage and price rigidity in, 252–254, 333–334, 335–337, 338–340, 353–354
  - and Central Bank accommodation dilemma, 254–55
  - implications in, 337, 340–342
  - wage rigidity as downward only, 352–353
- Keynesian consumption functions
  - and constant term, 67
  - and consumption function model (Modigliani and Brumberg), 64–66, 68
  - with addition of variables, 75n.26
- vs. New Theories of the Consumption Function, 111
- Keynesian money economizing syndrome, 283
- Keynesian under-employment equilibrium, 341, 347, 350–352
- Keynesian unemployment. *See* Keynesian analysis of unemployment
- Klein, Lawrence R., 33–36
- Koopmans, Tjalling, 365
- Korea
  - income and savings in, 134
  - national saving rate of, 199, 202
- Labor-management consultation, on wages and prices, 255, 256, 266, 270, 372
- Labor market. *See also* Wage rigidity equilibrium in (Keynesian), 251, 341
  - “flexible” vs. “inflexible,” 212
  - and Keynes vs. classical models, 327
  - and unemployment, 223
- Labor market flexibility policies, 226–227
- Laissez faire capitalistic system, 316n.4
- Lange, Oskar, 365, 366
- Lao P.D.R., income and savings in, 134
- LCH. *See* Life-Cycle Hypothesis
- Leff, Nathaniel H., 132
- Legal rules
  - and developing countries, 313
  - and development of security markets, 310–312, 313
  - and government intervention, 308–309
  - inadequacy of, 313–314
  - vs. privileged access to officials, 310
- Legislation, economic
  - and Asian economies, 315
  - and equity vs. efficiency, 306
  - as government intervention, 306–307
  - purpose of, 305
- Lending contracts, and inflation, 284–288
- Leontief, Wassily, 366
- Lerner, Abba P., 365
  - functional finance principle of, 82
- Lesotho, income and savings, 135
- Leverage of portfolio, 291, 292, 293–294, 300, 303, 373
- Liberalization, financial, in developing countries, 313, 315
- Liberalization of labor market, in Europe, 226
- Liberia, income and savings in, 135
- Life cycle, and composition of assets, 31
- Life-Cycle Hypothesis (LCH), xi–xii, 107, 141, 179, 363, 379–381. *See also* Consumption function model
  - and aggregate saving, 111
  - apparent contradictions of, 141–142, 168
  - vs. Barro’s model (Ricardian equivalence), 376–377
- basic model of, 115
  - factors other than income affecting saving rate, 117–118
  - and role of income growth, 115–117, 119
- and Bosworth model, 138–139
- for China, 173–174, 179, 202
  - basic data in study of, 174–178, 203–204
  - and demographic structure, 180–182
  - and estimation of saving ratio, 187–193
  - and estimation tests for saving ratio, 193–198
  - and income growth, 199–202
  - and inflation, 183–187
  - and Keynesian model, 178–179
  - and modeling of permanent variation in per capita income growth rate, 183
- and consumption function, 345 (*see also* Consumption function)
- and definition of income, 142
- and developing countries, 173 (*see also* Developing countries)
- empirical tests of in OECD countries, 122
  - first-difference, 123–124, 127–131
  - results-level, 122–127
- general model of
  - bequests in, 118–119
  - government in, 119–122
- and income, 131
  - and Bosworth model, 139
  - in developing countries, 131–137
- and inflation, 137–138, 139
- and interest rate, 137–138, 139
- Italian test of, 143–146, 168
  - and age-wealth profile, 149–53, 154
  - dataset for, 146–149
  - and discrepancy between saving and wealth measures, 157–168
  - savings estimates with flow data, 153–157
- life as finite in (vs. permanent-income hypothesis), 111, 115, 120, 380, 381
- among New Theories of Consumption Function, 111
- and propensity to consume, 145

- Life-Cycle Hypothesis (LCH) (cont.)
  - and propensity to save during transitory deviations, 191, 348, 380
  - and steady growth, 179
  - and test bias toward high-income countries, 131
- Life-cycle theory of savings with bequests, 376
- Liquidity, and security market development, 311
- Liquidity preference, 251, 342–344, 363, 368–369
- “Liquidity Preference and the Theory of Interest and Money” (Modigliani), 328, 367
- Liquidity trap, 355, 356
- Lucas, Robert, 375
- Luxembourg communiqué, 212–213
- Maastricht agreement, 221, 222, 225, 229
- Macroeconomic policy
  - credibility of, 312–313
  - and economic legislation, 305
  - Modigliani’s influence in, 363
- Macroeconomics, 358, 368
  - as Keynesian invention, 342
  - most fertile fields in (Modigliani interview), 378
  - open-economy, 358, 378
- Madagascar, income and savings in, 135
- Malawi, income and savings in, 135
- Malaysia, income and savings in, 135
- Maldives, income and savings in, 135
- Mali, income and savings in, 135
- Malta, income and savings in, 135
- Mandated wealth, 145
- Mandatory saving, 143, 144, 157, 168
- Marginal propensity to consume, 11–12
  - and assets, 66
  - biased estimate of, 72
  - and income, 65
  - and inflation impact, 186–187
  - and transitory variations, 345
- Marginal propensity to consume with respect to assets, 30
- Marginal propensity to save
  - and cross-section savings-income relation, 32–33
  - of farmers vs. government employees, 380
  - and investment multiplier, 346, 348
  - and time-series propensities, 33
  - out of transitory income, 348, 380
- Marginal utility analysis, 4
- Market equilibrium
  - classical model of, 328–329
  - generalization of notion of, 334
- Market failure, economic legislation to limit, 305
- Mark-up model, 337, 340, 353
- Marschak, Jacob, 365
- Mauritania, income and savings in, 135
- Mauritius, income and savings in, 135
- McCarthyism, at University of Illinois, 367
- McKinnon, R., 307
- Meade, J. E., 79, 84, 98
- Measurement
  - errors of, 60, 72
  - of expected income, 52–54
- Measurement error, and Italian LCH survey, 160, 166–167
- Mentoring, Modigliani on (interview), 378
- M/E ratio, for six countries, 199
- Mexican Mortgage, 287
- Mexico
  - income and savings in, 135
  - U.S. treaty with, 323
- Miller, Merton, 363. *See also* Modigliani-Miller theorem
- Minimum wage policies, 215–216
  - restructuring of, 228–230
  - and unemployment, 358
  - in Europe, 245–246, 250
  - and United Kingdom, 220
- Miracolo Possibile, II* (The Achievable Miracle), 383
- MIT (Massachusetts Institute of Technology)
  - Inflation Proof Mortgage developed at, 28
  - Modigliani at, 366
- Mobility of labor
  - geographic, 226
  - policies to stimulate, 231
- Models, econometric, 378
- Modigliani, Amedeo (painter), 365
- Modigliani, Franco, 363–364
  - interview with, 364
  - life of (interview), 364–367
  - Nobel Prize of, 363, 374
  - photographs of, ii, v
- Modigliani, Serena, 364
- Modigliani-Miller theorem, 373–374
  - and Barro hypothesis, 375–376
- Monetarism and monetarists
  - in Modigliani interview, 377
  - for money supply over interest-rate policy, 355
  - in U.S. under Volker, 322
- Monetarist controversy, 355
- Monetary mechanism, 250, 327, 331
  - classical, 250–251, 331, 332–333
  - Keynesian, 251–252, 331, 342
  - investment function, 344–345
  - investment multiplier, 346–347
  - liquidity preference, 342–344
  - saving (and consumption) function, 345
  - saving-investment identity, 346

- Monetary policy
  - argument against use of, 344
  - as demand management tool (EU), 223
  - and employer's mark-up, 243
  - errors in, 358, 379
  - and European Central Bank, 225
  - and European unemployment, 214–215
  - in France (and puzzle of 1980s), 260
  - and inflation, 209
  - and unemployment (Keynes), 354
    - in Europe, 213, 240, 354, 379
    - in United States, 278
  - uses of (Modigliani interview), 377
- Monetary theory, classical, 331–333
  - and liquidity preference, 342–344
- Money, purchasing power of, 333
- Money demand, 330
  - classical concept of, 330, 333
  - in Keynesian analysis, 340–341, 350
    - and underemployment equilibrium, 350–351
  - and liquidity preference, 342–344
- Money economizing syndrome, Keynesian, 283
- Money market equilibrium, 329–330, 341
  - in Keynesian analysis, 341–342
- Money supply, nominal
  - in classical view on unemployment, 333, 355
  - in Keynesian analysis of unemployment, 357
  - increase of as remedy, 354
- Money supply, real
  - and accommodation to nominal wage increase, 254
  - in classical theory, 333
  - controlling of, 252–253
    - and Central Bank accommodation, 254–255
    - and rise in nominal wages, 253–254
  - and decline in real wages, 353
  - importance of (Modigliani interview), 377
  - vs. nominal wage rigidity, 252
  - raising of as unemployment remedy, 264
  - shortage of (case studies), 255–261
  - and unemployment, 240
    - in Great Depression, 375
    - Keynesian, 250, 327, 353, 357, 370
    - and return to full employment, 351–352
- Monopoly power, and economic legislation, 305
- Morocco, income and savings in, 135
- Mortality problem, in surveys, 148
- Mortgages, 284–288
- Motives for saving, 5–7
- M/Pop (population structure), 200
- M<sup>2</sup> measure, xii
- Multiplier, investment, 346–347
- Musgrave, R. A., 79
- Mutual funds, analysis of (selected), 298
- NAIRU (nonaccelerating-inflation rate of unemployment), 372–373
- National debt, burden of, 79–80
  - coefficient of future burden for, 90
  - as counter-cyclical measure in depression, 100–102
  - and deficit vs. tax financing, 89–90
    - for impact vs. total effects, 90–94, 96
  - and “gratuitous” increases in debt, 95, 96–98
  - and interest charges as measure of burden, 80, 86, 88–89
  - no-transfer and no-burden argument on, 80–81
  - fallacies in, 84–86, 87
  - transfer and burden argument on, 82–84
  - and war financing, 98–100
- National Income Accounts (NIA), 142, 143, 174, 192, 197, 198
- National Longitudinal Survey of Mature Men, 161
- Negative income taxes, conditional, 232–233
- Nepal, income and savings in, 135
- Netherlands
  - and Benefit Transfer Program, 234–235
  - labor market reforms in, 219–220
  - monetary stance of, 279
  - saving rates for, 108–111, 112–114
  - saving rates changes for, 129
  - unemployment in, 239
- Net worth
  - assets as, 10, 29
    - and liquid assets, 36
    - and consumption, 62
    - and income, 65, 68–69
- New Jersey College for Women (now Douglas College), 366
- New School for Social Research, 364, 365, 366
- New Theories of the Consumption Function, 111
- Niger, income and savings in, 135
- Nigeria, income and savings in, 135
- 1980s, puzzle of, 258–261
- Nobel Prize of Modigliani, 363, 374
- Nominal income, in Keynesian analysis, 367–368
- Nominal wage rigidity. *See* Wage rigidity, nominal
- Nonpermanent component of income, 15
- Nonworking population (minors), 180, 181, 188, 193. *See also* Demographic structure or socio-demographic variables
- Normative economic analysis, 305
- Northwestern University, 366
- Norway
  - saving rates for, 108–111, 112–114
  - saving rates changes for, 129
  - unemployment in, 214

- OECD countries. *See also specific countries*  
 economic problems of, 319  
 empirical tests of LCH in, 122  
   results-level, 122–127  
 savings rates for, 199, 201  
 Oil crises, 257–258, 321–322  
   as break in employment stability, 357  
   inflationary spiral from, 215, 257  
   and interest rate policy, 240  
 Old boys network, 310  
 Open economy, 358, 378  
 Opportunity cost, of money, 343  
 Output  
   and aggregate demand, 244  
   in capital-output ratio, 69  
   as dependent on cost of capital, 349–350  
   and investment, 348–349  
   in Keynesian analysis (Modigliani interview), 369  
   and quantity of money, 367  
   and real demand for money, 250–251  
 Overlapping generations approach, 363  
 Over-life average propensity to consume (oac), 91, 94, 97, 101  
 Over-life marginal propensity to consume (omc), 91, 96, 97  
 Over-life marginal propensity to save (oms), 96  
  
 Pakistan, income and savings in, 135  
 Panama, income and savings in, 135  
 Papua New Guinea, income and savings in, 135  
 Parameters, shift in (consumption function), 62  
 Parsimoniousness, 378  
 Part-time jobs, and supply-side measures, 230  
 Peace, as world trade requisite, 321  
 Pensions, 142, 143, 169n.7  
   baby, 155  
   in China, 177, 179, 204nn.2,3  
   pooling of, 177  
   financing of, 144  
   and humps in earned income, 156  
   and life-cycle model, 380–381  
   private, 169n.7  
   in Singapore, 202  
 Pension wealth, 152, 153  
   age profile of, 154  
   in SHIW, 170–171  
 Per-capita income growth rate, modeling  
   permanent variation in, 183  
 Permanent Income Hypothesis (PY) of  
   Friedman, 47, 111, 115, 380, 381  
   and consumption function, 345  
   and propensity to save during transitory  
   deviations, 191  
 Personal Saving, 142, 143  
   alternate measurement of, 174  
 Peru, income and savings in, 135  
  
 Philippines, income and savings in, 135  
 Pigou effect, 44n.54, 84  
 Population, Chinese information sources on,  
   204  
 Portfolio optimization techniques, 301  
 Portfolio performance, measurement of,  
   289–290  
   by risk-adjusted performance, 290–304  
 Portugal  
   income and savings in, 135  
   saving rates for, 108–111, 112–114, 201  
   savings rates changes in, 129  
   unemployment in, 239  
 Postulate of price flexibility, 329, 331, 332,  
   333, 353  
 Post-war experience, and burden of national  
   debt, 85  
 Precautionary motive, 6  
 Presidential Address to American Economic  
   Association, 377  
 Price flexibility, postulate of, 329, 331, 332,  
   333, 353  
 Price level  
   classical theory on, 331–332  
   of consumables, 4, 7  
   in Keynesian analysis, 340  
   and Modigliani interview, 368  
   and wages (Modigliani interview), 372  
 Price Level Adjusted Mortgage (PLAM), 286  
 Price rigidity, in Keynesian analysis, 333–334  
   implications of, 337, 340–342  
 Price-wage spiral, 254, 257, 357. *See also*  
   Inflation  
 Productivity  
   and employment growth, 244  
   and minimum wage, 245–246  
   and real wage, 242–243, 267  
   and unemployment remedies, 268  
   and wage increases (nominal), 253  
   in Italy, 255, 256  
   and unemployment remedies, 264–265,  
   265–266  
 “Propensity,” 38n.19  
 Propensity to save, 90, 145  
 Purchasing power of money, 332–333  
  
 Quantity of Money Theory of the price level,  
   332  
 Quantity theory of money, 328, 367  
  
 Ram, R., 132  
 RAP. *See* Risk-adjusted performance  
 Rational expectations 375, 382  
 Reagan, Ronald, 322, 376  
 Real exchange rate, and transfer of resources,  
   263  
 Real money supply. *See* Money supply, real

- Real wages. *See* Wages, real
- Regulation, and communist vs. capitalist rule, 316n.4
- Reid, Margaret, 24, 25, 26, 27, 367
- Reputation, of financial center, 312
- Restart Programme (UK), 231
- Retired households  
consumption-income relation for, 24  
retirement effect, 144
- Retirement, early, 217
- Retirement earned income, 155
- Retirement History Survey, 164
- "Ricardian equivalence," 121, 376
- Risk  
alternative measures of, 299–300  
"idiosyncratic," 301  
and portfolio performance measurement, 289–290  
and risk-adjusted performance, 290  
sigma as measure of, 293
- Risk-adjusted performance (RAP), 290–293, 302–303  
application of, 297–299  
graphical representation of, 295–297  
vs. other measures, 294–295  
qualifications to, 299–302  
relative measures of, 303–304  
and sigma as measure of risk, 293  
as tool for optimal portfolio selection, 293–294
- Risk aversion, 293
- Risk premium, 88, 289, 349–350, 355  
equity, 293
- Rule-making capability, of governments, 309
- Rwanda, income and savings in, 135
- Samuelson, Paul, 363, 378
- Saving function, 15. *See also* Savings and saving rate or ratio  
estimation of coefficient of (China), 189–190  
in Keynesian model, 178, 345  
in Life-Cycle Hypothesis, 180
- Saving-income ratio. *See also* Savings and saving rate or ratio  
changes in, 107  
in China, 173, 174, 175–176  
and consumption function, 67  
and cyclical swings in income, 69–70  
cyclical variability in, 67  
and income, 131–132  
and inflation, 186  
in Life-Cycle Hypothesis, 179
- Saving-investment identity, 346
- Saving and Loan industry, U.S., 285
- Saving measures, vs. wealth measures, 157–158  
and bequests, 165–168, 168  
and changing composition of the cohort, 163–65  
choice between, 165  
and conceptual differences, 161–163  
international evidence on, 160–161  
and measurement error, 160, 166–167  
and severance pay, 160  
and smoothing, 158–159
- "Savings and the Income Distribution" (Brady and Friedman), 27
- Savings and saving rate or ratio. *See also* Dissaving; Saving-income ratio  
aggregate, 115  
and assets, 30  
in China, 175–176, 202  
sources for, 203  
definition of, 7, 142  
discretionary, 143, 144, 153, 156, 168  
(*see also* Discretionary saving)  
and E/M (China), 182  
and errors of measurement, 60–61  
estimation of (China), 187–193  
tests for, 193–198  
factors affecting (LCH), 117–118  
and income, 32, 196  
in China, 196, 200  
per capita, 115  
and income (nonstationary household), 15–16  
increase in, 16, 17  
and income (stationary households), 14–15, 38–39n.23  
and income growth, 179, 381  
in China, 199  
and inflation, 98, 186–187, 191, 382  
and measurement of, 183–186  
and investment, 60  
in Keynesian model, 178–179  
and Life Cycle model, xi–xii (*see also* Life-Cycle Hypothesis)  
as lifetime allocation of resources, 91  
mandatory, 143, 144, 157, 168  
model of, 31 (*see also* Consumption function model)  
motives for, 5–7  
and uncertainty, 6, 7, 30–31  
multiple definitions of, 142  
national trends in, 107–111, 112–114  
personal (NIA), 142, 143, 174  
and position in income distribution, 27–28  
propensity to, 90, 145  
and return on capital, 350  
total (household), 143, 144, 145, 157, 168
- Schioppa, Padoa, 378
- Schumpeter, Joseph, 366
- Search promoting policies, 231

- Second World War, consumption behavior during, 73n11
- Securities and Exchange Commission (SEC), and mutual fund risk disclosure, 290
- Security markets  
 afterthoughts on, 315  
 and credibility of macroeconomic policy, 312–313  
 development of, 310–312, 313  
   in Asia, 314–316  
   in France vs. England, 317n.13  
 and institutional framework, 308
- Senegal, income and savings in, 135
- Severance pay, 160, 169n.11
- Sharpe ratio, 290, 294–295, 299, 303  
 and information ratio, 302  
 and leverage opportunity line, 296
- Shaw, E., 307
- Shiller, Robert, 364
- SHIW (Survey of Household Income and Wealth), 145, 147, 168, 170–171
- Shocks. *See also* Oil crises  
 and asset accumulation, 150  
 and business cycles, 375  
 and consumption function, 345
- Sierra Leone, income and savings in, 135
- Simon, Herbert, 366
- Singapore  
 growth of, 321  
 income and savings in, 135  
 savings rate of, 325  
   national, 199, 202
- Small entrepreneurial firms, and absence of public capital markets, 312
- Smoothing, 158–159
- Social security, 236n.1. *See also* Pensions  
 and European unemployment, 211–212  
 and life-cycle model, 380–381  
 as mandated wealth, 145  
 and minimum wage, 216  
 and unemployment, 358  
 for unwanted workers in Italy, 219
- Social Security System (U.S.)  
 amount taken by, 211  
 in Modigliani interview, 381  
 reform of (Modigliani interview), 381–382, 383
- Socio-demographic variables or demographic structure, and saving rate, 118  
 in China, 180–182, 196, 200–201  
 and saving, 118
- Solow, Robert, 364
- Somalia, income and savings in, 135
- South Africa, income and savings in, 135
- Spain  
 as case study (Central Bank accommodation), 257  
 and ERM, 275  
 and exchange rates, 277  
 and inflation, 278  
 labor market reform in, 219  
 saving rates for, 108–111, 112–114  
 saving rates changes for, 129  
 unemployment in, 239, 244, 276
- Sri Lanka, income and savings in, 135
- Stagflation, 257, 358
- Standard Keynesian consumption functions  
 and constant term, 67  
 and consumption function model (Modigliani and Brumberg), 64–66, 68  
   with addition of variables, 75n.26
- Stationary households, 13, 39n.23  
 and consumption-income relation, 14–15, 20, 38–39n.23
- “Sterilization” policy, 263
- Sterling coefficient, 120, 121, 122, 125–126
- Stiglitz, Joe, 378
- Stock market bubbles, 371
- Subsidies, in unemployment reduction policies, 227
- Substitution effect, 138, 144
- Supply and demand, “law” of, 328–329
- Supply effects, and unemployment in Europe, 240
- Supply side policies, and unemployment  
 misguided, 209, 214, 215  
   job security legislation 216–217  
   minimum wage legislation, 215–216  
   work sharing and early retirement, 217–218  
 proposed, 226–232, 236  
   auctioning of unemployment benefits and employment vouchers, 235–236  
   Benefit Transfer Program (BTP), 227, 233–235  
   and complementarity, 213, 218–219  
   conditional negative income taxes, 232–233
- Survey of Household Budgets, ISTAT, 160
- Survey of Household Income and Wealth (SHIW), 145, 147, 168, 170–171
- Survey Research Center, University of Michigan, and consumption function, 3, 38n.16
- Sweden  
 and European system, 323  
 labor market reforms in, 219  
 saving rates for, 108–111, 112–114  
 saving rates changes in, 129
- Switzerland  
 and European system, 323  
 interest rates of, 280  
 saving rates for, 108–111, 112–114  
 saving rates changes for, 129  
 unemployment in, 214
- Syria, income and savings in, 135

- Tanzania, income and savings in, 135
- Tarantelli, Ezio, 266
- Taxes
- and burden of national debt, 85
  - and EU unemployment, 210, 211
  - frictional loss from, 81, 84
  - and functional finance principle, 82
  - and Modigliani-Miller theorem, 374
- Tax financing, vs. deficit financing, 89–90, 102, 104n.27
- for impact vs. total effects, 90–94, 96
  - and war financing, 99
- Technological progress, and European unemployment, 212
- lower rate of, 321
- Terms of trade, changes in (developing countries), 133–135
- Thailand
- growth in, 314, 321
  - income and savings in, 135
- Tilt problem (mortgages), 284–285, 285–286, 286–287, 288
- Togo, income and savings in, 135
- Total (household) saving, 143, 144, 145, 168
- age profile of, 157
- Total wealth, age profile of, 153
- Tracking ability, 302
- Trade deficit, of U.S., 324–325
- Transfers. *See also* Bequests
- intergenerational, 165
  - inter vivos, 161–162, 164, 165, 167
- Transfer wealth, 168
- Transitory fluctuations (deviations)
- and consumption, 345
  - and negative growth, 137
  - propensity to save during, 191
- Transitory income
- and Friedman, 111
  - and marginal propensity to save, 348, 380
- Treynor ratio, 290, 295
- Trinidad and Tobago, income and savings in, 135
- Tunisia, income and savings in 135
- Turkey, income and savings in, 135
- Uncertainty, 6
- and acquisition of assets, 30–31
  - measurement of, 289
  - and motives for saving, 6, 7, 30–31
- Under-employment equilibrium, Keynesian, 341, 347, 350–352
- Unemployment
- and expected income, 53
  - vs. inflation as Central Bank concern, 224–225, 257, 358, 372–373
  - from inflation-fighting measures, 322
  - Keynes on, 327 (*see also* Keynesian analysis of unemployment)
  - vs. classic model on labor market, 327
  - in Modigliani interview, 369, 370
  - and NAIRU, 372
- Unemployment benefits
- auctioning of, 235–236
  - reform in, 231–232
- Unemployment in Europe, xii, 239–240
- and Beveridge curve, 246–247, 248, 271–274
  - challenge of, 240–241
  - control of as ECB target, 224–225
  - demand explanations of, 240, 247–250
  - and ECB, 358, 371
  - and EMS in 1990s, 261–264
  - and high interest rates, 275
  - in Keynesian analysis (year-by-year), 338–340
  - Keynes's explanation of, 250–261, 327–328 (*see also* Keynesian analysis of unemployment)
  - in Modigliani interview, 370–371
  - and monetary policy, 213, 240, 354, 379
  - 1993 levels of, 277
  - note of optimism on, 359
  - remedies for
    - emergency package of, 264–265
    - in France, 262
    - general principles of, 265–266
    - programming of inflation, 266–267
    - programming of real wages (closed economy), 267
    - programming of real and nominal wages (open economies/EMS), 267–271
- supply explanations of, 241
- developing countries' competition, 245
  - long-term unemployment, 245, 371
  - minimum wage, 245–246
  - mismatch, 245
  - and real wages, 240, 241–244 (*see also* Wage rigidity, real)
  - welfare provisions, 244
  - in United Kingdom, 214, 220, 239
  - and job availability, 248, 249
- Unemployment in European Union, manifesto on, 209
- challenge for, 210
  - misguided policies on, 214
  - demand management errors, 214–215
  - job security legislation, 216–217
  - minimum wage legislation, 215–216
  - work sharing and early retirement, 217–218
- and mistaken explanations, 210–213
- policies proposed for reduction of, 218–221
- adoption of throughout EU, 224, 236
  - aggregate demand policies, 221–226
  - complementarity of, 209, 213, 218–219, 220, 231



- Unemployment in European Union (cont.)
  - supply side measures, 226–236 (*see also* Supply side policies, and unemployment)
  - and uniformity of wages vs. regional differences in productivity, 226
- United Kingdom
  - and Benefit Transfer Program, 234–235
  - growth strategy of, 280
  - labor market reforms in, 219–220
  - monetary stance of, 279
  - Restart Programme in, 231
  - saving rates for, 108–111, 112–114
  - saving rates changes for, 129
  - taxation and unemployment in, 211
  - unemployment in, 214, 220, 239
  - and job availability, 248, 249
- United States
  - and American Common Market, 323–324
  - Earned Income Tax Credit (EITC) of, 32–233
  - and exchange rates, 324
  - growth of real wage in, 242
  - growth record of, 319, 320
  - inflation in (1970s), 322
  - inflation and employment in (Modigliani interview), 372
  - and interest rate reduction, 263
  - low interest rates in, 345
  - and monetary policy, 278
  - monetary stance of, 279
  - past and future role of, 324–325
  - Savings and Loan industry in, 285
  - savings rates for, 108–111, 112–114, 199, 202
  - savings rates changes in, 129
  - Social Security in, 211, 381–382, 383
  - stock market bubble in, 371
  - taxation and unemployment in, 211
  - unemployment in, 239
  - and “mismatch,” 245
- University of Chicago, 366
- University of Illinois, 366, 367
- UN Yearbook of National Account Statistics, 195
- Uruguay, income and savings in, 135
- Utility function, 4–5
  - assumptions about, 48–51
  - and Modigliani-Brumberg model, 48
  - and proportion devoted to consumption, 8–9
- Vanuatu, income and savings in, 135
- Velocity of circulation, in Keynesian analysis, 330
- Venezuela, income and savings in, 134
- Vouchers, for long-term unemployed people, 233–234
  - auctioning of, 235
- Wage freeze or limitation, as unemployment remedy, 264–265
- Wage-price spiral, 254, 257, 357. *See also* Inflation
- Wage rigidity, nominal
  - concern followed by optimism over (Europe), 252–253
  - and exchange regimes, 358, 378
  - and Hicks, 366
  - in Keynesian analysis, 333–334, 335–337, 338–340, 341, 346, 358
  - and flexibility postulate, 353
  - implications of, 337, 340–342
  - in Modigliani interview, 367–368
  - and rational expectations (Modigliani interview), 375
  - vs. real money supply, 252
  - vs. real wage rigidity, 240, 253, 357–358, 378–379
- Wage rigidity, real, 23
  - and exchange regimes, 358
  - in Modigliani interview, 371–372
  - vs. nominal wage rigidity, 240, 253, 357–358, 378–379
  - and real money supply, 253–254
  - and Central Bank accommodation, 254–255
- Wages, nominal
  - in Modigliani interview, 371–372
  - programming of, 267–271
- Wages, real
  - employer's setting of, 242
  - programming of, 267–271
  - and unemployment, 240, 241–244
- Walras, Léon, 382
- War financing, and burden of national debt, 83, 98–100
- Wealth
  - accumulation of, 169n.6
  - and age (LCH test), 149–153
  - annuitized, 166
  - and consumption, 65–66
  - discretionary, 149, 150, 151, 168 (*see also* Discretionary wealth)
  - pension (mandated), 145, 152, 153, 154, 170–171 (*see also* Social security)
  - transfer, 168
- Wealth-income ratio, 115–117
  - and income, 131–132
  - in Lifetime Cycle Hypothesis, 179
- Wealth measures, vs. saving measures, 157–158
  - and bequests, 165–168, 168
  - and changing composition of the cohort, 163–165
  - choice between, 165
  - and conceptual differences, 161–163
  - international evidence on, 160–161
  - and measurement error, 160, 166–167
  - and severance pay, 160
  - and smoothing, 158–159



- “Wedge” between pay and cost to employer, 228–229
- Welfare entitlements, as “unemployment trap,” 211
- Welfare provisions, European and unemployment, 244
- Welfare to Work policy, 231
- Western Europe, disposable vs. earned income in, 143
- Worker mobility, policies to stimulate, 231
  - for geographic mobility, 226
- Work-sharing policies, 217–218
- World economy, 319
  - exchange regime changes in, 322–323, 324
  - improvement in (1950–1992), 321
  - international monetary system, 379
  - low growth problem in, 319–321
  - and oil crises, 321–322 (*see also* Oil crises)
  - role of Japan and U.S. in, 324–325
  - trans-national groupings (Europe, Americas, Japan), 323–324
- World War II years, consumption behavior during, 73n.11
- Yemen, income and savings in, 135
- Youth unemployment, 230
- Yugoslavia, income and savings in, 135
- Zambia, income and savings in, 135
- Zimbabwe, income and savings in, 135