Good budgeting is the uniform distribution of dissatisfaction.

Murray Weidenbaum

What is the world's largest debtor nation supposed to do about other people's debts?

Daniel Patrick Moynihan

The Jerome Levy Economics Institute
1989-1990

Consumption has had a happy decade, but investment hasn't.

Paul Volcker

Deficits can be good for you, and if they're the right size, they're splendid.

Robert Eisner

The crisis in the financial system is our appendicitis attack.

Martha Seger

Education, health, research and development, infrastructure. If you fail to make the appropriate investments, tomorrow's economy will be weaker.

Paul Sarbanes
Introduction

THE JEROME LEVY ECONOMICS INSTITUTE of Bard College, founded on March 27, 1986, is an autonomous, independently endowed research organization.

The Institute believes in the potential for the study of economics to improve the human condition. Its purpose is to generate viable, effective policy responses to important economic problems. It will concern itself with issues that profoundly affect the quality of life in the United States, other highly industrialized nations, and countries with developing economies. Among these challenges are the maintenance of price stability with full employment, the reduction of structural unemployment and poverty, and the maintenance of financial stability.

In the brief period since the Institute came into being, it already has hosted numerous meetings and established a program of resident scholars. Its activities have led to dozens of papers and several books. Because the Institute aims to find practical answers to problems, business and government leaders as well as scholars have participated in many of these programs, and they will all be involved in future activities.

The 1989-1990 academic year will be a watershed. This year, the Institute will announce major, new research projects as it continues to pursue its ultimate goal of better economic policy.

The charter of the Jerome Levy Economics Institute affirms the importance of personal freedom and justice, and these values will be weighed heavily as the Institute seeks solutions to economic problems. The Institute will maintain its nonpartisanship and intellectual integrity while striving for the highest ideals of scholarship and public service.

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By TOM HICKMAN

The New York Times

ECONOMISTS LOOK AT THE MARKET COLLAPSE

A Falling Dollar Can Only Help

March 1986
The Jerome Levy Economics Institute is founded
Launching The Institute 1986-1989

The Jerome Levy Institute was established to find solutions to economic problems and constructively influence government policy. To get off to a rapid start and build a solid foundation for achieving these goals, the Institute had to accomplish a number of preliminary tasks.

The objectives of the first phase of the Institute's evolution were (1) to develop an awareness of the Jerome Levy Economics Institute and its mission among scholars as well as among business and government leaders; (2) to cultivate a growing network of experts interested in participating in Institute activities; (3) to establish a reputation for serious, unbiased work; and (4) obtain physical facilities to support research and conferences.

By the end of 1987, the Institute had granted its first research fellowships. The acclaimed architectural firm of James Stewart Polshek & Partners had begun overseeing the $3 million restoration of Blithewood, the turn-of-the-century mansion on the Bard College campus that was to become the Institute's base of operations. The Jerome Levy Economics Institute conference series had been initiated with a gathering of scholars to examine the work of the late Nicholas Kaldor and discuss current economic issues. This meeting was jointly sponsored and hosted by the Institute and the Graduate Faculty of the New School For Social Research.

In 1988, the renovation of Blithewood was completed, and the Institute began its program of resident scholars. It launched a working paper series, held the first research workshop, and hosted a 3-day international conference on the Latin American economic crisis, which included such accomplished participants as former Federal Reserve Chairman Paul Volcker, M.I.T. economist Rudiger Dornbush, Senator Daniel Patrick Moynihan, and the United Kingdom's Lord Harold Lever. The conference was co-sponsored by Washington University at St. Louis, the National University of Mexico, and The Ford Foundation.

On March 16-18, 1989, the Institute met the last of the objectives for its first phase of development with one event: The Gala Inaugural Conference and Celebration. The 3-day event included a conference, "Profits and Instability;" a spectacular inaugural celebration; and a public policy forum, "An Economic Agenda for the New President." This program of speeches, policy debates, and festivities drew to the Institute hundreds of distinguished guests: CEOs, Senators, publishers, Federal Reserve Board Governors, presidential advisors, and leading educators.

The Institute is established, but its evolution has barely begun.
The Jerome Levy Economics Institute is developing programs that directly attack major economic problems, find workable solutions, and contribute to the public policy formulation process.

The attainment of these ambitious goals will not come from playing it safe. The Institute will incur risks trying new approaches to problem solving; it will not settle for results that are less than important contributions to society.

Innovation, experimentation, and flexibility are dominant themes as the plans for the next several years take shape. In the words of Founding Governor Leon Levy, the Institute “is rather like an explorer knowing his objective and having a general idea as to where he has to go, but not knowing the particular path he is going to take.”

On September 16 and 17, a closed conference of the Institute’s advisory board and board of governors will help establish the direction of the Institute for the next several years by exploring the policy problems on which Institute research efforts appear most promising and by considering strategies for addressing them.

The shape of the Institute will be influenced by the problems it chooses to tackle. No preconceived structures or conventions will inhibit the efforts to solve problems. The particular projects the Institute undertakes will dictate the composition and structure of the research teams working on them.

While the Institute begins these major, direct assaults on important economic problems, it will continue its programs of resident scholarships and conferences. Among the events on the 1990 calendar are a spring conference on information technologies and their implications for growth, productivity, and employment and a fall conference on the distribution of income.
Forbes

Time is running out. If the Latin American debt problem isn't defused soon, the only winners will be the cocaine lords.

IT WON'T WAIT

By David A. Levy

Last month some of the best minds in economics and finance gathered at the Utah campus of Reid College, 100 miles north of Salt Lake City, to tackle the Latin American debt problem. The participants included Paul Volcker, Vice Chairman of the Federal Reserve Board; former Mexican central banker Carlos Tello; and Marshallian economist Peter Newman, who at the newly formed Levy Economics Institute was convening a National University of Mexico (UNAM) and Washington University in St. Louis, with participants from the Ford Foundation.

The debt is huge. At a price of 25 cents on the dollar, Latin America owes $200 billion. There are no quick solutions. Financial catastrophe is only avoidable through the orderly restructuring of the debts, and that's as far as the participants got. They didn't predict the future. They geared up for it.
Programs Research Philosophy

To achieve its goals for more effective economic policies, the Institute must invent new ways to work on problems that have defied solution. It must identify and address newly emerging or overlooked issues.

In this spirit, The Jerome Levy Economics Institute has one special area of emphasis. Its founders believe that the study of the macroeconomic role of profits in economic systems promises important insights into the workings and malfunctions of market economies. Profits (here meaning the excess of business revenues over expenses) serve as the motivation in private economies for production, employment, and investment in new plant, equipment, and research. Yet the discipline of economics still faces many critical questions about the role of profits: the nature of the relationship between profits and business investment, the determinants of aggregate profits, the interrelationships between profits and financing activity, the causes of both secular and cyclical changes in the rate of profit, the consequences of changing profits for employment and production, and numerous other issues. These fundamental questions have direct implications for a great variety of economic policy areas.

The Institute’s belief that expanding the study of profits will lead to valuable insights into important problems is neither an ideological evaluation of profits nor an endorsement of any particular policy. Rather, it is a conviction that understanding how an economy generates and distributes profits and how these processes relate to economic performance merit increased consideration by economists tackling the world’s economic ills.

Another way in which the Institute plans to be a pioneer is by bringing wider varieties of people together to work on economic problems. Virtually all profound economic problems have political, managerial, legal, sociological, technological, or other dimensions. Economists have interacted fruitfully with corporate chiefs, bankers, high government officials, psychologists, historians, and other experts at past Levy Institute meetings. The Institute will call upon multi-disciplinary research teams as an approach to a number of problems.

The Institute is interested in new methodologies, but only insofar as they can offer help on meaningful human problems. New technologies will be the tools, but not the subject, of Institute research.
Meetings

In its first two years of operation, the Jerome Levy Economics Institute hosted three major conferences and two workshops. In addition, the Institute has been the site of seminars and lectures. The Institute's approach to organizing conferences has been to combine scholarly paper presentations and debate with interactions among economists, business leaders, and government officials. This practice is built on the belief that researchers should be in touch with the practical political and business problems that relate to the issues they study.

The Institute's workshop series enables scholars with common interests to work closely together in an informal setting. The workshops also serve as laboratories for the Institute to experiment with new ideas.

Past Conferences:
The Kaldor Conference
Jointly sponsored and hosted by The Graduate Faculty of the New School For Social Research.

This conference, commemorating the late, distinguished economist, dealt with growth, cycles and instability, saving, and distribution of income. The conference was held less than two weeks after the Black Monday crash, and much of the roundtable discussion focused on the market decade and on broader issues of instability.

Among those contributing to the conference were Professors James Tobin, John Kenneth Galbraith, Franco Modigliani, Hyman Minsky, Donald Harris, Tibor Scitovsky, Basil Moore, and Edmund Phelps.

Financing Latin American Growth: Prospects for the 1990s
Co-sponsored by Washington University at St. Louis, National University of Mexico, and the Ford Foundation.

Forty economists, government officials, and bankers from the Latin American countries, the United States, and Europe met to examine the massive financial and economic problems facing most of the hemisphere. A number of plans and proposals were offered and discussed. The views expressed at this meeting foreshadowed the announcement of a new approach to the Latin debt crisis by Treasury Secretary Nicholas Brady on March 10, 1989.

Among the participants were former Federal Reserve Chairman Paul Volcker, Senator Daniel Patrick Moynihan, Lord Harold Lever, Vice Chairman Hans Angermueller of Citibank, Professor Rudiger Dornbusch, former World Bank Vice President and Treasurer Eugene Rotberg, and Professor David Felix.

Economists presented papers and participated in discussions on profit trends, the relationship between profits and investment, profit sharing, debt quality, instability, and appropriate government responses. The meeting emphasized the spirit of the Institute, especially during a lively exchange on fiscal policy among Senator Daniel Patrick Moynihan, Professors Murray Weidenbaum, Hyman Minsky, Charles Kindleberger, and dinner speaker Robert Eisner. Other participants included Dr. Albert Woinilower and Professors A. Asimakopulos, Dennis Mueller, Richard Day, Glenn Hubbard, and Steven Fazzari.

The Gala Inaugural Celebration
March 18, 1989.
T he formal inauguration of the Institute, this program included an address by Senator Paul Sarbanes, Chairman of the Joint Economic Committee, on "Economic Issues Emerging During the Next Four Years." Following the Senator's speech was a public policy forum, "An Economic Agenda for the New Administration," a discussion among Philip Caldwell, former Ford Motor Company Chairman; Richard Cavanagh, Executive Dean of the Kennedy School of Government; George Hatsopoulos, Chairman of both Thermo Electron Corp. and the Boston Federal Reserve Bank; Martha Seger, senior member of the Federal Reserve Board of Governors; and Murray Weidenbaum, Washington University and Chairman of the Council of Economic Advisors under President Reagan.

Past Participants:
Irina Adelman
Peter Albin
John Allo
Barry Ames
Hans Angermueller
Eileen Appelbaum
A. Asimakopulos
Francisco Baez
Ernest J. Bartell
Randall Bausor
Axner Benner
James Beniger
Leon Botstein
Robert Boyer
Michael Bradley
Roberto Cabral Bowling
Philip Calsawell
Elana Cardoso
John Caskey
Richard Causanagh
Rolando Cordera Campos
Richard Day
Richard Dekaser
Sidney Dell
Meghdad Dehai
David Dollar
Rudiger Dornbusch
Fay Duclos
Gerard Dumenil
Sebastian Edwards
Hans Eibhar
Robert Eisner
Sam Estrin
Roger Farmer
Steven Fazzari
Richard Feinberg
Allan Feiwel
Stanley Feldman
David Felix
Richard French-Davis
Duncan Foley
Renner Franke
Jeffrey Frieden
James Galbraith
Mark Gertler
Herb Gintis
Mark Glick
David Gordon
Bruce Greenspan
Harley Grassman
Barbara Gutik
Harold Hagemann
Donald Harris
Albert Gailor Hart
George Hatsopoulos
Geoff Heal
Francisco Hernandez-Puente
Glen Hubbard
John Hudson
Gary Hufbauer
Katsunori Inoue
Marc Jarskis
Derek Jones
Past Workshops:
Organized by Prof. Duncan Foley, Barnard College
Economists discussed work-in-progress relating to profits, instability, investment, credit rationing, and related issues.
The workshop was experimental in that participants represented extremely diverse schools of thought. The cross fertilization proved productive and was lauded by participants.

Organized by Prof. Peter Albin, Center for Study of System Structure and Industrial Complexity, John Jay College and by Prof. Eileen Appelbaum, Temple University.
This meeting was an international gathering of economists, psychologists, and other social scientists who are leading the effort to understand the impact of computer technology on productivity, economic structure, international competitiveness, and labor issues. The implications of these largely unexplored, exciting new issues will be enormous for economics and society.

Scholars
1989-1990 marks the second year of the Institute's resident scholars program. Scholars include men and women from both the United States and abroad. They bring to the Institute a variety of cultural experiences, professional backgrounds, and political orientations. Scholars are typically in residence for a year.

Jean Cartelier, Ph.D. University of Paris; Professor, Universite de Picardie-Amiens, France.
Research Project: An analysis of the viability of a monetary approach to economic problems with particular emphasis on profits and stability.

Dimitrios Giannias, Ph.D. Carnegie-Mellon University; Assistant Professor, University of Guelph-Ontario, Canada.
Research Project: (i) the development of methodology for estimating hedonic equilibrium models, (ii) an analysis of “quality of life” in terms of the relationship of wages and the effects of local amenities, (iii) the investigation of monopoly regulation and financing of centrally provided public goods and, (iv) an analysis and investigation of a general equilibrium model of wage and labor differentials.
Frank R. Lichtenberg, Ph. D.
University of Pennsylvania; Associate Professor, School of Business, Columbia University.
Research Project: An analysis of (a) variants in plant productivity relating to the nature of ownership changes, i.e., horizontal vs. conglomerate or acquisition sell-offs into LBOs vs. divestiture in an already operating company going private, and (b) the impact of conglomerate vs. horizontal plant ownership on the firm's structure of plant productivity, i.e., single-plant vs. multi-plant firms.

Thomas R. Michl, Ph. D. New School for Social Research, Assistant Professor, Colgate University.

Tracy Mott, Ph.D. Stanford University; Assistant Professor, University of Colorado at Boulder.
Research Project: (i) the development and estimation of the relationship between liquidity premium in the term structure of interest rates and profitability, (ii) an analysis of the class structure in a Kaleckian-Keynesian model, (iii) an analysis of the Kaleckian principle of increasing risk within the framework of the "new" Keynesian paradigm.

Jeffrey Pliskin, Ph.D. University of Michigan; Assistant Professor, Hamilton College.

Anwar M. Shaikh, Ph.D.
Columbia University; Professor, Graduate Faculty-New School for Social Research.
Research Project: The development of a dynamic non-equilibrium model of cyclical growth which includes, (i) a reformulation of the interaction of effective demand and investment within a dynamic context and (ii) an analysis of the instability of the warranted growth path.

Nina Shapiro, Ph.D. New School for Social Research; Associate Professor, Drexel University.
Research Project: An examination of theories of innovation and the growth of the firm. An organization and cataloging of data with respect to major firm innovations.

Nancy J. Wulwick, Ph.D.
University of Kent at Canterbury; Assistant Professor, California State University, Sacramento.
Research Project: The relationship between economic theory and the implementation of economic policy. An assessment of the applicability of the Phillips curve, Okun's law, the Solow and Kaldor growth laws, and the IS-LM equilibrium condition.

Cambridge Travel Scholarships
Roger I. Clitheroe, Christ's College University of Cambridge, U.K.
Research Project: An analysis of the impact on the economic and political relations between the single European market in 1992 and the U.S., including an examination of Britain's specific role.

Nick Mayhew, Christ's College University of Cambridge, U.K.
Research Project: An anthropological analysis of the organization of multi-national corporations and the mediation that occurs between this organization and Third World host countries during the processes of investment.

Sarah Mullen, A.B. University of Cambridge, U.K.
Research Project: An examination of the process of growth in the newly industrialized countries (Taiwan, South Korea, Hong Kong and Singapore). An assessment of the relationship of growth within the framework of free market, liberalization of trade, export promotion and specialization and an analysis of the roles of government planning and foreign investment.

Lord Harold Lever's scheduled participation in the October 1988 conference appeared doomed when at the eleventh hour he was forced to remain in London. A quickly furnished British video team, a Concorde jet, NBC News' video converting equipment, and a giant video projector were able to "bring" him to the conference. Above, Dimitri Papadimitriou relayed questions from the audience to Lord Lever whose responses were heard live at the conference. Opposite page, lower left, Eugene Rotberg.
Publications
The Institute's plans call for an expanding publications program. Proceedings from each of the Institute's three major conferences will be published. The Kaldor Conference (October, 1987) will be soon published by Macmillan Press, London, in a book edited by Professors Edward Nell and Willi Semmler, Growth Cycles, and Distribution; Nicholas Kaldor and Mainstream Economics: Confrontation or Convergence?

Financing Latin American Growth (October, 1988), edited by Professor David Felix, will be published by M.E. Sharpe, Armonk, N.Y.

Profits and Instability (March 1989), edited by Dimitri Papadimitriou, also will be published by Macmillan.

The Jerome Levy Economics Institute Working Paper Series numbered 25 papers at the end of the 1988-1989 academic year. In many cases, these papers have been published in economics journals or are parts of forthcoming books.

Jerome Levy Economics Institute Working Paper Series

No. 2 The Firm and Its Profits… Nina Shapiro—March 1988
No. 3 Competing Micro Economic Theories of Industrial Profits: An Empirical Approach… Mark Glick and Eduardo M. Ochoa—March 1988
No. 4 Housing Quality Differentials in Urban Areas… Dimitrios A. Giannias—July 1988
No. 6 A Structural Approach to Hedonic Equilibrium Models… Dimitrios A. Giannias—August 1988
No. 7 Why is the Rate of Profit Still Falling?… Thomas R. Michl—September 1988
No. 8 The Effects of Alternative Sharing Arrangements on Employment: Preliminary Evidence from Britain… Jeffrey Pliskin and Derek C. Jones—September 1988
No. 9 Consumer Benefit from Air Quality Improvements… Dimitrios A. Giannias—October 1988
No. 10 Long-Term Trends in Profitability: The Recovery of World War II… Gerard Dubois, Mark Glick and Dominique Levy—October 1988
No. 11 Ranking Urban Areas: A Hedonic Equilibrium Approach to Quality of Life… Dimitrios A. Giannias—October 1988
No. 12 The Real Wage and the Marginal Product of Labor… Tracy Mott—November 1988
No. 13 The Effects of Worker Participation, Employer Ownership and Profit Sharing on Economic Performance: A Partial Review… Derek C. Jones and Jeffrey Pliskin—November 1988
No. 14 Classical and Neoclassical Elements in Industrial Organization… Mark Glick and Eduardo M. Ochoa—December 1988
No. 16 Unionization and Labour Regimes: A Comparison Between Canada and the U.S. Since 1945… David Kettler, James Strathers and Christopher Huxley—January 1989
No. 17 Social Progress after the Age of Progressivism: The End of Trade Unionism in the West… David Kettler and Volker Meja—February 1989
No. 18 Profitability and the Time-Varying Liquidity Premium in the Term Structure of Interest Rates… Tracy Mott and David Zen—March 1989
No. 19 A Dynamic Approach to the Theory of Effective Demand… Anwar Shaikh—March 1989
No. 20 Profits, Cycles and Chaos… Marc Jarsulic—April 1989
No. 21 The Structure of Class Conflict in a Kaleckian-Keynesian Model… Tracy Mott—April 1989
No. 22 Debt and Macro Stability… Marc Jarsulic—May 1989
No. 23 Viability and Equilibrium ISLM Revisited… Jean Cartelier—May 1989
No. 24 Financial Instability: A Recession Simulation on the U.S. Corporate Structure… Dorene Isenberg—June 1989
No. 25 Kaleckianism Vs. “New” Keynesianism… Tracy Mott—June 1989
Blithewood

Blithewood, the home of The Jerome Levy Economics Institute, is a magnificent turn-of-the-century mansion in the style of a Georgian manor house situated on the beautiful Bard College campus overlooking the Hudson River. This building was given to the College in 1951 and transferred to the Institute in 1987. Blithewood was restored and renovated to serve its new function by the architectural firm, James Stewart Polshek and Partners, lauded for, among other projects, their restoration of Carnegie Hall.

Blithewood houses research space for scholars in residence, an economics library, and a large variety of meeting rooms. The interior east wing of the building, originally the servants’ quarters, was completely rebuilt to create modern office space and an auditorium. The grand west wing and central section were preserved and restored.

Rooms in the restored areas are being carefully furnished in early-twentieth-century style under the supervision of Marvin D. Schwartz of the Metropolitan Museum of Art, a leading authority on American decorative arts. The mansion’s grounds are also undergoing restoration with the help of a grant from New York State for the reconstruction and restoration of the formal garden.

Blithewood’s excellent facilities for research and conferences include computer equipment, library and data resources, and a modern kitchen and dining areas. Its mid-Hudson location offers easy access to New York City, Boston, and the Albany airport.
“If you were unemployed and were willing to work and able to work and could find no work, what would you do?”

The question was directed to William Howard Taft, candidate for the presidency.

“God knows,” Taft replied, “I don't.” The United States was in the midst of the economic “panic” of 1908 and the future president had just completed a campaign speech.

Jerome Levy, 26-year-old head of a small wholesale business, read about the incident in his newspaper. Levy, an erstwhile student of physics mulled over Taft's candid admission and the problem of the unemployed.

That morning Jerome Levy became an economist. He believed that a man who is willing and able to work should have an opportunity to work.

As a businessman, he understood that his own decisions to employ workers were directly dependent on the profitability of his business. He thus approached the problem of unemployment by seeking to determine the sources of profits—not just for a single firm, but for the entire economy.

Levy dedicated his spare time between 1908 and 1914 to determining the sources of profits. He arrived at an equation for the sources of profits—a version more detailed but otherwise identical to the profit identity later rediscovered by the Polish economist, Michal Kalecki, and noted by Keynes.

Jerome Levy saw the profit equation as the core of a powerful perspective on the operation of an economy, as the best way to understand the dynamics of the system. His own experience strengthened his conviction. During the next decade-and-a-half he was remarkably successful at forecasting economic conditions and managing his business accordingly. His analysis prompted him to liquidate his business and all stock market holdings in the spring of 1929.

Jerome Levy continued his studies and carried on extensive correspondence regarding economic issues with government officials and other influential individuals in the United States and abroad.

The Institute carries on in the spirit of Jerome Levy's efforts to conquer economic problems and improve the human condition.
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