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Levy Institute

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UPDATE.91

1990 Highlights

- Launching two major research programs
- Appointing the first Distinguished Scholar
- Presenting a series of major conferences
- Expanding the Institute's publications program
- Naming the first president
- Making capital improvements
- Adding new staff

Report

of the

Executive

Director

IN 1990, ITS FOURTH YEAR OF OPERATION, the Jerome Levy Economics Institute of Bard College made significant progress in its development into a leading public policy institute. This nonpartisan research organization will continue its rapid evolution in 1991.

The economic turmoil of 1990, from rising U.S. unemployment to upheaval in central Europe, underscored the need for the innovative, timely, public policy research programs already undertaken by the Levy Institute. Undoubtedly, events in 1991 will add still greater urgency to the Institute's quest for effective policy responses to difficult socio-economic problems. The Institute will concentrate its efforts on stimulating, creating and disseminating fresh ideas and new insights that improve economic justice, the quality of life, and human freedom.

New Research and Public Policy Projects

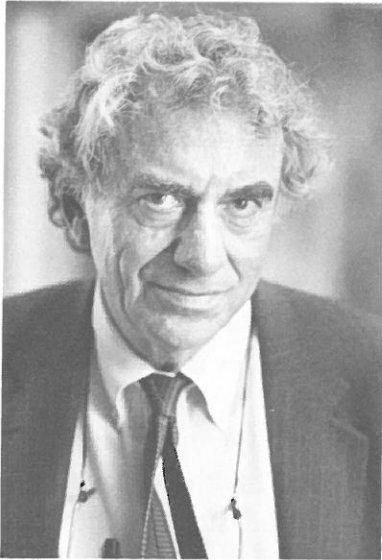
The Institute established two broad-based public policy research programs during 1990. The first focuses on problems of poverty and inequality in the distribution of wealth and income. The second addresses the financial instability and fragility of advanced free-market economies.

Economic Inequality at the Close of the Twentieth Century, the first of these two programs, encompasses eight research projects by fifteen Levy Institute Research Fellows—economists, sociologists, and other social scientists. This team is conducting its research at the Institute and at leading institutions throughout the United States. The program also includes a public policy group that will integrate and disseminate research findings and public policy proposals.

The Reconstitution of the Financial Structure, the second of the two programs, is directed by Hyman P. Minsky, professor emeritus of Washington University-St. Louis. Throughout his career, Dr. Minsky has focused his attention on the financial vulnerability inherent in advanced capitalist economies. The current crisis in the financial sector, encompassing banks, thrifts, insurance companies and junk bond financings, has recently drawn international attention to problems that have concerned Dr. Minsky for more than three decades.



Dimitri B. Papadimitriou



First Distinguished Scholar

During 1990 Dr. Minsky became the Institute's initial Distinguished Scholar. His appointment to this two-year position in residence at the Institute became effective July 1, 1990. Two of Dr. Minsky's recent books—*Can 'It' Happen Again?* referring to the Depression and subsequent breakdown of the economic system, and *Stabilizing an Unstable Economy*—exemplify the relevance of his thought. In the former he wrote:

(T)he processes which make for financial instability are an inescapable part of any decentralized capitalist economy....(W)e need to construct a system of institutions and interventions that can contain the thrust to financial collapse and deep depressions without inducing chronic inflation.

Resident Scholars

Now in its third academic year, the Levy Institute's postdoctoral Resident Scholar program provides full-time research positions at the Institute. The awards encourage and support economic research toward achieving better public policy.

This program offers researchers the opportunity to pursue full-time research at Blithewood, the Institute's stately turn-of-the-century, Georgian-style manor house overlooking the scenic Hudson River, two hours north of New York City. Blithewood supports resident scholars with its extensive and growing research resources, including computer hardware and software, library and other services. The facility's informal atmosphere promotes interaction among the scholars. Programs like the Blithewood lecture series enable them to exchange views with researchers from organizations across the nation. In addition, resident scholars participate in the Institute's conferences and enjoy access to Bard College's rich cultural offerings.

A new Sun SPARCServer 4/470 workstation, added in 1990, and access to the InterNet system of university, government and research facilities nationwide have significantly expanded the Institute's support of its researchers both on and off site. The new system has been programmed to meet most if not all computational, networking and graphics needs.

Timely Conferences on Leading Policy Issues

In spring and autumn of 1990, economists and experts in other fields as well as, civic leaders, journalists and government officials from around the world participated in a

series of highly-acclaimed, Institute-sponsored conferences on major public policy issues. The conferences included:

- **Policy and Economic Implications of Informational Technology: Productivity, Income and Employment Effects.**

Assembling researchers from such disparate disciplines as economics, sociology, psychology, management and artificial intelligence, this two-day conference examined the implications of modern information technologies for both the economy and society overall. Among the consequences considered were international trade patterns, labor force education, work organization, labor productivity, and economic growth.

- **The Recovery of Memory: Eastern Europe and the Question of Nationalism.**

This three-day dialogue on the emergence of the New Europe brought together an international group of scholars, politicians and cultural figures. The conference, organized by Professor Karen Greenberg of Bard College and co-sponsored by the International Academy of Scholarship and the Arts and by the Bard Center, joined panelists from Czechoslovakia, East Germany, Hungary, Poland, Romania, the Soviet Union and Yugoslavia with observers from Western Europe, Canada and the United States. The proceedings exposed the depth and complexity of the changes sweeping the former Eastern Bloc.

- **Aspects of Distribution of Wealth and Income.**

More than seventy-five social scientists and policymakers gathered at Blithewood for this two-day conference marking the formal beginning of the Institute's research program to examine economic inequality at the close of the 20th Century. They explored the serious social and economic problems to which the research team and policy group will evaluate possible policy responses.

- **Monetary Theory and Policy**

This three-day conference signaled the commencement of the Institute's second major research program, *The Reconstitution of the Financial Structure*. It brought together more than fifty leading economists from North America and Europe as well as representatives of U.S. private banking and the Federal Reserve. The conferees examined monetary issues relating to government intervention in a globally integrated financial system.

Expanding Publications

The Levy Institute's publication program continued to grow in 1990 with distribution of the book *Debt and Transfiguration: Prospects for Latin America's Economic Revival*, edited and with an introduction by

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Professor David Felix of Washington University-St. Louis. It presents the Institute's conference proceedings and is published by M.E. Sharpe, Inc. This collection of papers and discussions offers insight into the Latin American debt crisis and prospects for regional growth. The conference predicted, among other developments, the scrapping of the Baker Plan.

The Institute's working paper series expanded further during this year. Among the completed working papers are "Industrial De-Diversification and its Consequences for Productivity," by Frank Lichtenberg; "The Determinants of U.S. Foreign Production," by Thomas Karier; and "Poverty and Household Composition," by Joan R. Rodgers.

Appointments

In November 1990, the board of governors elected Dr. Leon Botstein, a fellow board member, to the newly created position of president. Dr. Botstein, who is also president of Bard College, helped to conceive and establish the Levy Institute. In his new position, he will assist in expanding the Institute's presence in the public policy arena.

In April 1990, Brian F. Wruble, chief executive officer of Equitable Capital Management Corporation, was elected to the Institute's board of governors. He brings to the Institute a deep knowledge of finance and management, as well as a long record of community service.

Paralleling the development of the Institute's research program and physical resources is the growth of its staff. The Institute added an associate director, program coordinator and communications director in 1990. They are enabling it to expand its programs, increase its efficiency and improve its position as an effective asset for public policy makers.

Making an Impact

The Levy Institute has, in fact, already affected public policy. U.S. Senator Daniel P. Moynihan has credited the Institute with helping to shape environmental policy. "It was in this very library at Blithewood," the Senator said in November, "that, a year ago, the kind of cost/benefit analysis for environmental decisions which is included in the 1990 Clean Air Act was conceived." As a result of discussions at the Institute, the senator added, he intends to work in 1991 for the establishment of a new national Bureau of Environmental Statistics.

Senator Moynihan is not the only policymaker who views the Institute's work with interest. U.S. Senator Paul Sarbanes told the attendees of the Institute's conference on

the distribution of wealth and income: "This is an extraordinarily timely conference, and the underlying research project which the Jerome Levy Institute is undertaking couldn't come at a more opportune time." Indeed, the conference, planned a year earlier, coincided with a new debate in Congress about "fairness" in the U.S. tax system.

Senator Sarbanes' remarks also suggest why the Institute's research approach is earning it an increasing number of followers. "A lot of the studies that deal with this issue come from advocacy institutes," the senator observed. "So there's always the suspicion that they're taking the facts and trying to, in effect, put them together to serve a particular advocacy position. I hope we can get both the facts and some conclusions here, but in a way that enables the advocates to use them as a common base." The Institute's research activities hew to a nonpartisan line.



The Institute Tomorrow: An Urgent Agenda

Recent domestic and international events make the objectives of the Institute more relevant than ever. During 1991, the Institute will continue to focus on the problems related both to issues of wealth and income and the financial imperfections of free-market economies. New scholars and projects will be sought in both of these, as well as other fields. On February 1-2, a "work-in-progress" workshop will be held for the research fellows of the distribution of wealth and income program, followed on June 18-20 by a major conference at which the program's research findings and policy recommendations will be presented. On April 4-6, the Institute will host a conference centering on "The Crisis in Finance."

Enduring and increasingly critical economic and social problems demand nonpartisan, nonideological solutions capable of real world application. The Institute is committed to research and policy development that provides them. By fostering and communicating those solutions, the Institute will make a lasting contribution to the enlargement of personal freedom, the promotion of justice and the maintenance of stable economies with full employment and rising standards of living in the decade ahead.

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Economic Inequality at the Close of the Twentieth Century

Research Projects

Why Are Poverty Rates So High?

Rebecca Blank
Northwestern University

The Distribution of Labor Market Outcomes: Measuring and Explaining Trends and Patterns in the 1980's for Selected Demographic Groups in the United States.

McKinley Blackburn
Russell Sage Foundation;
University of South Carolina

David Bloom,
Columbia University

Richard Freeman,
Russell Sage Foundation;
Harvard University

The Role of Increased Earnings of Women on the Distribution of Family Incomes.

Sheldon Danziger
University of Michigan

Peter Gottschalk
Boston College

Poverty, Inequality and the Use of Earnings Capacity, 1973-89.

Robert Haveman
University of Wisconsin

The Relation of Two Alternative Measures of Well-Being— Consumption and Living Conditions— to Inequality.

Christopher Jencks
Northwestern University

Susan Mayer
University of Chicago

Changes in the Distribution of Permanent Income in the U.S.A.: The Role of Earnings, Property Incomes, Taxes and Transfers.

Greg Duncan
University of Michigan

Deborah Laren
University of Michigan

William Rodgers
University of Michigan

Timothy Smeeding
Syracuse University

The Role of Health in Limiting Earnings Capacity, Poverty and Welfare Participation.

Barbara Wolfe
University of Wisconsin

Can a 'Social Security Capital Fund' Reduce the Growing Wealth Gap Among Age Groups in the U.S.?

Edward N. Wolff
New York University

Current Resident Scholars

David Campbell

formerly with the University of Tokyo

Ryszard Frelek

formerly with the University of Warsaw and the Academy of Social Sciences in Warsaw

Thomas Karier

Bard College

Kenneth Koford

University of Delaware

Joan Rodgers

University of North Carolina-Greensboro

Sourushe Zandvakili

University of Cincinnati

Cambridge Travel Scholars

Susan Davies

Jonathan Elliott

New Institute Forecasting Center is Established

On January 1, 1991, the Jerome Levy Economics Institute established a Forecasting Center under the direction of David A. Levy, partner in Levy Economic Forecasts and vice chairman of the Institute. The Institute also assumed the role of publisher of the highly respected *Industry Forecast*, which at 41 years of age is America's oldest monthly newsletter devoted entirely to analyzing and forecasting economic conditions. *Industry Forecast* was previously produced by Levy Economic Forecasts.

The Institute's chairman, S Jay Levy, who founded *Industry Forecast* in 1949 with his father, the late Jerome Levy, will remain deeply involved in forecasting research and contributing to the publication.

The Forecasting Center will continue to employ the profit-centered analytical perspective developed by Jerome Levy. In David Levy's words, "The model we employ emphasizes the flows of funds that determine aggregate profits and the roles of profits and other factors in determining business investment." The Forecasting Center will strive to raise awareness of the dynamics of profits not only in the context of forecasting but also as a source of insights into a variety of economic issues.

The Forecasting Center will be located in Westchester County, midway between Bard College and New York City.