

Reminiscences on Forty Years of Teaching and Research in Economics
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When I recall getting started in Economics over forty years ago, I still remember the excitement of my first courses at the University of North Carolina in Principles and International Economics with Jim Ingram, working with my senior thesis advisor David Lapkin, the graduate course in Macroeconomics taught by Lowell Ashby, my senior Honors introduction to microeconomic theory with Bill Pfouts, economic history with Bill Parker, and the course in Mathematics for Social Scientists taught by Robert Davis, in which Henry Latané was a fellow student. After a couple of years of this heady material, topped off by a thesis on the Radcliffe Report on the British Monetary System, I was ready to give up following my father's footsteps in banking and enroll at Yale for a Ph. D. in Economics. The choice may have been influenced by the fact that my father died when I was a freshman at the peak of his banking career at age 53. There was also the fact that Yale offered me a tuition scholarship, having previously turned me down for undergraduate admission.

When I arrived at Yale, there was Robert Triffin standing on the porch of the Economics Department offices offering me an umbrella in the rain and an invitation to my first graduate seminar at the Cowles Foundation, a talk by Pieter de Wolfe on the "Dutch Disease." It got me started off on the right foot, looking at policy problems from an analytical point of view. The years 1961-65 were exciting times at Yale, with James Tobin and Arthur Okun shuttling between New Haven and Washington, working for President John F. Kennedy on the "New Frontier." They were scary times, too, as in 1962 we first sweated out the Cuban Missile Crisis and then later in 1963 watched in horror as our President was struck down by an assassin's bullets.

I was very lucky in my teachers, both at Carolina and at Yale. At Yale I learned economic theory from Willi Fellner, who seemed to have learned it directly from Say, Ricardo, Mill, Keynes, Hicks, and Wicksell. Modern linear activity analysis came from Tjalling Koopmans and mathematical microeconomics from Gerard Debreu and Herbert Scarf. James Tobin, Art Okun, Ray Goldsmith, Robert Triffin, and Bela Balassa taught me macroeconomics and international economics. Three went on to win Nobel Prizes in Economics. I assisted in graduate courses for both Tobin and Koopmans. My fellow students were also a distinguished lot, including Ned Gramlich, now a Governor of the Federal Reserve, Koichi Hamada, a former economic adviser to the Japanese Prime Minister, and many others.

Also, 40 years ago in my final year at Yale I began teaching Principles of Economics to undergraduates. In one class there was a student whose father had been involved together with my uncle in the "Great Electrical Price Fixing Conspiracy." Although my uncle had been an unindicted co-conspirator, his father had actually gone to jail. Later, I was able to help him gain admission to the Princeton Ph. D. program, where he had an excellent record. Today he is an executive with a major international organization.

Another piece of good fortune was finishing my degree in four years. Working under Jim Tobin, Richard Cooper, and Bela Balassa, I extended and estimated from Canadian data a

model of spot and forward exchange rates due to S. C. Tsiang. A key discovery was that there was an important difference between stock and flow formulations of capital movements. When I presented my results at the Econometric Society meetings in Chicago in January 1965, they were attacked by my discussant, who felt another approach [his own] would be better. Fortunately, I was rescued by the chairman, Rudi Rhomberg, a Yale Ph. D. from the IMF, whom I would often see again in Washington. My attacker later met his comeuppance, being accused of embezzlement by his Department.

At Yale I met and married Roberta Callison, who after growing up in New Haven had gone to Radcliffe and worked at Columbia before returning to work as Administrative Assistant in the Economics Department at Yale. Jim Tobin noted I done pretty well by carrying off both a degree and a bride from Yale!

Top students at Yale had the opportunity to work at the President's Council of Economic Advisors, where Art Okun had just replaced Jim Tobin on the Council. I was hoping to work for President Kennedy, but after his tragic assassination, instead I had the opportunity in 1965-66 to work for the first modern Southern President, Lyndon Johnson. Together with Bob Russell, I was made staff guardian of what were called the "Wage-Price Guideposts," which were intended to insure that wages rose no faster than productivity and that price inflation remained low. One well-received memo on automobile industry profits was entitled "The Solid Gold Cadillac," after a recent play on Broadway. Little did we realize that the reason prices were beginning to rise was because of growing excess demand for goods due to the expanding war in Viet Nam. As Art Okun later confirmed, President Johnson kept his economic advisors in the dark until 1967. Bob Russell and I spent long nights running stacks of punch cards through the Bureau of Standards computer center to decompose Okun's Law into its cyclical components of productivity, hours of work, and labor force participation.

After a year at the CEA, we moved to Princeton, where they sold us on the place by saying it was a lot like Chapel Hill! Fritz Machlup had full control of the graduate courses in International Economics, so I taught graduate Macro. When Jim Tobin came to town, I told him I was passing along what he had taught me. He responded that the course had a 5% improvement factor every year, and I've always tried to keep that improvement going in the 40 subsequent years.

After publishing my dissertation and the work with Russell on Okun's Law, I got involved in a Labor Department research project. Harry Kelejian and I estimated a Phillips' curve tradeoff just before it started shifting up with inflation. In the process Harry invented nonlinear two stage least squares. One summer I spent commuting to the New York Federal Reserve to estimate the recently discovered demand for Eurodollar deposits.

In my five years at Princeton a few graduate students came my way. Surprisingly, Jim Heckman asked me first to be on his committee, and then when his chairman withdrew because Jim's work was hard to read I became his dissertation chairman. There is no doubt it was difficult. I remember floating subscripts and superscripts. At the time I had been looking at an intertemporal labor model and Jim's ideas fit right in.

Another research project I became involved with was a Mathematica study for NASA on the costs and benefits of a reusable space shuttle. We were given some cost estimates for development and operation of the shuttle and the alternative expendable rocket and asked to compare them over time. Well, if you assumed the expendable rocket had no technological improvements, the shuttle seemed to be the less costly option. But some of us decided we should instead assume normal progress in expendable rocket technology. Suddenly the shuttle was more expensive! The bosses of the project, including Oskar Morgenstern, decided we were expendable and dropped our ideas from the report. A colleague concluded that “an economist is like a prostitute, you pay him and he does what you want.” I concluded that cost-benefit analysis was a slippery tool at best.

Then I got interested in a unique weekly Treasury dataset from the 1930’s on banks’ spot and forward dollar positions during a period of floating exchange rates. At Yale I had the good fortune to attend a class by the visiting Jack Muth on his new concept of “rational expectations.” While I wasn’t quick enough to incorporate it into my dissertation work, which relied on adaptive and extrapolative expectations, a few years’ perspective had enabled me to see how it would naturally fit into a portfolio framework to explain why exchange rate movements were so volatile. I was completing this important work just as Princeton informed me that it was time to move on. It was published in 1973 as I was spending an interim year at the Board of Governors of the Federal Reserve in Washington and just as exchange rates were starting to float.

The year 1972-73 was notable in more ways than one. Our offices at the Fed were one floor above the Democratic National Committee in the Watergate Office Building. One Monday morning in the summer of 1972 we were on our usual trip down two flights to the coffee and doughnut vendor when we noticed that the DNC headquarters office door was taped over with police crime scene tape. Apparently a “third-rate burglary” had taken place!

My office was next to Bill Poole and around the corner from Peter Tinsley and Dick Porter, who was running the Fed-MIT-Penn econometric model, precursor of today’s FRB-US Model. Dale Henderson of the International Division was most interested in my portfolio approach to exchange rates, as we both shared Jim Tobin and a Yale background. He and Lance Girton worked out their own version, which I have to admit was more elegant than mine.

After a year at the Fed, we moved on to Vanderbilt in Nashville, Tennessee. I remember Midge Quandt at Princeton seeing Roberta and wringing her hands, “I just don’t know what to say.” Congratulations might have been in order, as I now had the opportunity to teach International Economics as well as do it. I was fortunate to have a long succession of excellent graduate students at Vanderbilt, beginning with Saleh Nsouli, now at the IMF, Pradumna Rana, now of the Asian Development Bank, Dong-Se Cha, who became head of the Korea Development Institute and other Korean organizations, Syahril Sabirin, who became Governor of the Bank of Indonesia, Leonardo Cardemil of the IMF, “Chip” Brown, now a leading Wall Street specialist on Latin America at Santander Investments, and David Cushman, who is now Professor of Economics at the University of Saskatchewan.

On the invitation of the US Agency for International Development in 1974, I began a study of the effects of floating exchange rates on developing countries. This was published as a Princeton Essay in International Finance and soon became one of my most cited papers, as it explained the difficulties facing developing countries that were pegged to major currencies such as the dollar or the pound sterling and suggested alternative policies.

While at Vanderbilt I had the good fortune to be invited to a conference at Williams organized by Albert Ando, whom I knew through Franco Modigliani and the Fed-MIT-Penn project. There I discussed a paper by the Dane Jørgen Gelting and apparently made an impression upon Assar Lindbeck, head of the Institute for International Economics at Stockholm. Assar invited me to visit the Institute, if I could get partial funding.

I had become convinced by 1974 that my technical analysis of floating exchange markets did not capture the essential aspects of differences in exchange rate policies across different countries, but that a deeper study of differences in monetary and fiscal policies and even price and wage behavior was necessary. So I applied to the Council on Foreign Relations for a fellowship to spend the year in Stockholm and write a book comparing the experiences of five different countries, the United States, Great Britain, France, Germany, and Sweden.

Roberta and I and our two young children set off for Stockholm, by way of her father's place in Normandy. The year in Stockholm was noteworthy in many respects, including the challenging weekly seminars, the frigid and dark winter, my trips to France, Germany and England to gather information for the book on exchange rate policies I was working on, an unforgettable week in the Canary Islands, and a week in Paris with Roberta. She described my trips as "through Europe with pen and fork." One high point came when my professor at Yale, Tjalling Koopmans, won the Nobel Prize in Economics. We were invited to all the festivities. Tjalling, a remarkable man, had learned Russian so he could go on with Leonid Kantorovich to visit Russia. Tjalling said that he remembered me for my habit of standing on one leg, "like a stork," as he put it. I wished that he had remembered that he had written on my term paper that I had a "subtle mind."

Other high points of that year were the conferences on monetary policy and exchange rate policy in Finland and Stockholm. The Haikon Kartano conference in Finland, arranged by Franco Modigliani, was sponsored by no less than 12 central banks! It was notable for a fantastic setting in a Finnish estate and a magnificent *smorgasbord*. The Stockholm conference was held at a hotel in the archipelago, so we could swim between sessions. Several key papers dealt with the asset market approach to the exchange rate, which I had introduced in my 1973 paper. At these conferences I made the acquaintance of all the leading figures in international macroeconomics, Rudi Dornbusch, Jacob Frenkel, Stan Fischer, Max Corden, Mike Mussa, and others, who became lifelong friends.

Back in Nashville, I completed the book and caught up with my graduate students, one of whom, Chip Brown, had forgotten what came next in his thesis, until I pulled his proposal out of my file and read it to him. "Sounds good!" I recall him saying.

The 1976 election of Jimmy Carter led to a fascinating opportunity to serve as Dick Cooper's Special Assistant at the State Department during 1977-78. Dick was a member of the Economic Policy Group, chaired by Treasury Secretary Blumenthal, and I was his representative on the deputies group, which prepared the weekly meetings. Talk about getting to see economic policy made up close! Among the issues was the preparation of Economic Summit meetings where the US agreed to raise domestic prices of petroleum to world levels, thus ending a tax on domestic production used to subsidize imports, in exchange for German and Japanese pledges to stimulate their economies. Other issues included steel imports, which were subjected to minimum price floors rather than tariffs, and fiscal policy plans to "fine tune" the economy towards full employment by the 1980 election.

A key decision where I differed with my boss was the appointment of William Miller as Federal Reserve Chairman in March 1978. I favored Paul Volcker, but Cooper was actually Miller's chief advocate, so my views were of little significance. In the 2004 *Journal of Economic Perspectives*, Christina and David Romer cite Miller's policies as "highly misguided," and leading "monetary policy to be...disastrous in the late 1970s." When Volcker replaced Miller in the midst of rising inflation in August 1979, I could not take much satisfaction, as the Carter Administration's efforts at "fine tuning" and inflation control led to economic stagflation and later to Carter's subsequent electoral defeat by Reagan.

The most interesting area for me was the decision in late 1978 to support the sinking US dollar by drawing on the IMF and issuing foreign currency-denominated bonds. I well remember attending a meeting at Treasury chaired by Under-Secretary Tony Solomon at which it was asked if the dollar had been sufficiently "oversold" that a substantial intervention could achieve a successful "Bear Squeeze." And so it turned out. However the downtrend in the dollar resumed until monetary policy decisively changed with the appointment of Paul Volcker to the Federal Reserve Board.

After returning to Vanderbilt for a year we were offered the opportunity to visit for a year at Yale where I would teach the graduate international money course. This seemed too good to miss, so I dragged the family off for another year away from home. Of course we knew New Haven and Roberta was raised there, and there were many friends in the Yale Economics Department. What an interesting group of students! John Campbell and Andres Velasco were two who are now most prominent. I took along a grad student who was working on his dissertation under my Ford Foundation grant. The research project was a comparative study of monetary, fiscal, and exchange rate policies in ten industrial countries. It was an early example of the now-popular study of the effects of institutions on comparative macroeconomic outcomes.

Another student visited briefly to confer on his thesis, or so I thought. I arranged for him to see some other Yale faculty and attend a seminar on the Friday he visited. It turned out that it was more important for him to head up to New Hampshire for a weekend of skiing! He didn't bother to ask me for a recommendation after he finished his degree the next year.

Back to Vanderbilt and in 1983 I heard that North Carolina was interested in bringing me back. As a native North Carolinian with many relatives in the state, I was of course very

open to the offer, and accepted after a bout of negotiation. I'm afraid I quoted Thomas Wolfe's "You can't go home again," but I really was thinking Bre'r Rabbit's "Born and bred in the briar patch!" And it surely helped that UNC offered the Georges Lurcy Professorship in Economics, named after a UNC graduate who was Baron Rothschild's financial secretary before World War II and who created a famous art collection.

The key attractions at Chapel Hill were the strong macroeconomics group and the strength of the graduate program. Coincidentally, I had just developed a course on European Economic Integration. Among the group of excellent graduate students I found to work with were Brian Cody, who went to the Philadelphia Fed and is now in economic consulting, Jan Boucher Breuer, who is at the University of South Carolina, Jay Bryson, now at Wachovia Bank, and Bill Goffe, who created Resources for Economists and is active with the Society for Computational Economics.

Another attraction was the connection with Edward M. Bernstein, head of the Lurcy Trust, former economics professor at UNC, and renowned as an architect of the Bretton Woods System and former head of research at the International Monetary Fund. I did a series of oral history interviews with Ed, drawing on his amazing memory and presence at many of the key events of the mid-20th century, later published as *A Levite Among the Priests*.

After a couple of years I fell prey to the desire to help strengthen the Economics Department and agreed to become Chairman for a five-year term. During the period 1985-90 we hired a number of people, mainly in microeconomics, which I wanted to build up. Also we were able to begin wooing undergraduate alumni for their economic support. Major donations I sought came to the Department from the estates of retired faculty such as Henry Latané and Corydon P. Spruill.

Amazingly, Mike Salemi and I were able to work together during my chairmanship on an exchange rate paper that carried forward a pet idea of mine, that private agents would work to stabilize the foreign exchange market if the central bank created some stability by reducing the variability of interest rates and exchange rates. A different version of this idea later became the "target zone" theory of exchange rates. And then I was able to spend a summer at the IMF working on a paper explaining how the microeconomic structure of the foreign exchange market through the bid-ask spread led to economies of scale in currency use and the emergence of "vehicle currencies."

After I laid down my administrative burdens I spent a semester at Brookings working on a paper trying to resuscitate the portfolio theory of exchange rates, using weekly data and including central bank intervention. Unfortunately, no one seemed to be listening on that subject. So when an opportunity came along to work on European economic issues relating to my undergraduate course, I took it.

The assignment was to organize a series of academic conferences on issues of mutual interest in Germany and the United States for the Washington-based American Institute of Contemporary German Studies of Johns Hopkins University. This involved quite a bit of travel, both to Washington and to Europe, to choose the topics and the papers. Together with former

grad student Mathias Moersch, I wrote serious research papers for two of these conferences, as well as commissioning dozens of papers by US and German economists. The topics were the Eastern enlargement of the EU, financial markets in Europe, and the impact of globalization on EU and US labor markets. It was a lot of fun and I think led to a number of very good papers, which were published by Cambridge, Elsevier, and Kluwer in a series of conference volumes.

More recently, I have wandered into a number of areas, including economic reform of the Mongolian economy, the Korean foreign exchange crisis of December 1997, and a year supervising research at the IMF Institute. In Ulan Bator, we recommended privatization of the banks just as the government was falling over that very issue! And just after we left, the next non-Communist candidate for Prime Minister was assassinated! I also found time while there to run with the “Hash House Harriers,” a group of Anglo ex-pats. One day I found myself briefly lost on the steppes after the next slowest runners disappeared over the horizon.

The Korean foreign exchange crisis became an issue when my Korean graduate students found their parents could no longer acquire dollars because the foreign exchange market had frozen up. We found that Korea, with the IMF’s approval, had set daily limits for both the won price of the dollar and the amount of reserves to be spent supporting it. The result was a blocked market.

During the same period, Syahril Sabirin, who had retired after a long career at the Bank of Indonesia, was brought back from the World Bank by President Suharto to head the Bank, with a plan to set up a currency board, probably so that Suharto and his cronies could get their money out of the country. When the IMF vetoed that, Syahril stayed on under Suharto’s successors Habibie, Wahid, and Megawati. Habibie, who was a Germanophile, asked Helmut Schlesinger to write a new law for an independent Central Bank, which was duly enacted with Syahril as its Governor. When Wahid was elected, he wanted to get control of the Bank for his own purposes and falsely accused Syahril of involvement with a scandal over the bailout of a private bank, Bali. Syahril was offered bribes to resign and threatened with prosecution if he did not. In a long and exhausting series of arrest, release, trial, conviction, appeal, and vindication, Syahril stood strong for the principle of central bank independence. With other friends, I tried to support him with letters to the press and the US Ambassador. If he had wavered, the new law would have become a dead letter. I am immensely proud of his perseverance in the face of overwhelming difficulties.

It was also a great pleasure to see Jim Heckman honored by the Nobel Prize Committee for his pioneering work in labor economics. There had been an earlier indication in his winning the John Bates Clark Medal.

Continuing to supervise an evergreen crop of graduate students has also kept me on my toes, as the field of international finance continues to march forward. Recent students such as Frank Warnock and Timothy Goodger have utilized the latest intertemporal models in their dissertations. In the future, I plan to keep on doing what I have had so much fun doing over the last forty years, trying to understand economic relationships and trying to help students in their research. And this year’s class has its own set of interesting ideas to explore.