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## The Liberalization of Financial Markets: National and International Perspectives

Levy Institute

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LEVY INSTITUTE

TENTH ANNUAL HYMAN P. MINSKY CONFERENCE  
ON FINANCIAL STRUCTURE



**The Liberalization of  
Financial Markets**  
National and International Perspectives

APRIL 27-28, 2000

BLITHEWOOD  
ANNANDALE-ON-HUDSON  
NEW YORK

TENTH ANNUAL HYMAN P. MINSKY CONFERENCE  
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# The Liberalization of Financial Markets

## National and International Perspectives

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The Jerome Levy Economics Institute of Bard College, founded in 1986, is a nonprofit, nonpartisan, independently funded research organization devoted to public service. Through scholarship and economic forecasting it generates viable, effective public policy responses to important economic problems that profoundly affect the quality of life in the United States.

**PROGRAM**

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Thursday, April 27

9:00–9:30 A.M.

**Registration and Breakfast**

9:30–9:45 A.M.

**Welcome and Introduction**

DIMITRI B. PAPADIMITRIOU, President, Levy Institute

9:45–10:45 A.M.

**Speaker**

WYNNE GODLEY, Distinguished Scholar, Levy Institute

“Some Strategic Prospects and Problems”

10:45 A.M. – 12:45 P.M.

**Session 1. Stock Market Effects and the Macroeconomy**

Moderator: DIMITRI B. PAPADIMITRIOU, Levy Institute

BYRON R. WIEN, Morgan Stanley Dean Witter & Co.

“Will Macro Ever Matter Again?”

ROBERT J. BARBERA, Hoenig & Co.

“It’ Just Happened Again”

DAVID A. LEVY, Levy Institute, and

SRINIVAS THIRUVADANTHAI, Levy Institute

“The Stock Market’s Influence on the Economy”

FRANK A. J. VENEROSO, Veneroso Associates, and

ROBERT PARENTEAU, Dresdner RCM Global Investors

“The High-Tech Stock Market Bubble”

12:45–2:45 P.M.

**Lunch**

**Speaker**

THE HONORABLE BARNEY FRANK, U.S. House of

Representatives

2:45–4:30 P.M.

**Session 2. What Would Minsky Think?**

Moderator: JAMEE K. MOUDUD, Levy Institute

MARTIN MAYER, Brookings Institution

“The Fed in a World of Markets”

RONNIE J. PHILLIPS, Colorado State University

“Dealing with Financial Crises: Lessons from Minsky”

L. RANDALL WRAY, Levy Institute; University of Missouri–

Kansas City

“Minskian Thoughts about Stability and Sustainability”

4:30–5:00 P.M.

**Break**

5:00–6:00 P.M.

**Speaker**

H. ONNO RUDING, Vice Chairman, Citibank

“The Consolidation of Financial Institutions:

On a Global or National Basis?”

6:00–6:30 P.M.

**Reception**

6:30 P.M.

**Dinner**

**Speaker**

THE HONORABLE TIMOTHY F. GEITHNER, Under Secretary

for International Affairs, U.S. Department of the Treasury

**Friday, April 28**

9:00–10:00 A.M.

**Breakfast**

10:00–11:00 A.M.

**Speaker**

HENRY KAUFMAN, *President, Henry Kaufman & Co., Inc.*

11:00 A.M. – 12:30 P.M.

**Session 3. The Financial Architecture in the Post–Gramm–  
Leach–Bliley Era**

Moderator: FRANCES M. SPRING, *Levy Institute*

ERNEST PATRIKIS, *American International Group (AIG)*

“The Financial Safety Net in the Post–Gramm Act Era”

KENNETH H. THOMAS, *Wharton School of Business*

“CRA Grade Inflation”

NANCY A. WENTZLER, *Office of the Comptroller of the Currency*

“Strategic Challenges for the Banking Industry in the  
Changing Environment”

12:30–2:00 P.M.

**Lunch**

**Speaker**

DAVID A. LEVY, *Vice Chairman and Director of Forecasting, Levy  
Institute*

“Economic Disaster Ahead?”

2:00–4:00 P.M.

**Session 4. Changes in the International Financial Structure**

Moderator: AJIT ZACHARIAS, *Levy Institute*

ROBERT Z. ALIBER, *University of Chicago*

“Financial Market Liberalization and the IMF and World  
Bank”

PHILIP F. BARTHOLOMEW, *Democratic Staff, House Banking and  
Financial Services Committee; Office of the Comptroller of the  
Currency*

“International Financial Institution Reform”

DANIELA KLINGEBIEL, *World Bank*

“Globalization, E-finance, and Changes in Financial  
Services Markets: Implications for Developing Countries”

JAN A. KREGEL, *Levy Institute; United Nations Conference on Trade  
and Development*

“Can European Banks Survive a Unified Currency in a  
Nationally Segmented Capital Market?”

4:00 P.M.

**Closing Remarks**

## PARTICIPANTS

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ROBERT Z. ALIBER teaches international finance at the University of Chicago. Previously, he was senior economic adviser at the Agency for International Development of the U.S. Department of State and staff economist for the Committee for Economic Development and the Commission on Money and Credit. While at Chicago, he developed the Program of International Studies in Business and the Center for Studies in International Finance. Aliber has been a consultant to the Federal Reserve's Board of Governors and other U.S. government agencies, the World Bank, the International Monetary Fund, research institutions, and private firms. His publications include *The International Money Game*, 5th ed. (Basic Books, 1987) and *Money, Banking, and the Economy*, 4th ed., with Thomas Mayer and James S. Dusenberry (Norton, 1990).

ROBERT J. BARBERA is executive vice president and chief economist at Hoenig & Co., where he is responsible for global economic and financial market forecasts. Previously, he was chief economist and director of economic research at Lehman Brothers and chief economist at E. F. Hutton. He has been co-chair of Capital Investment International, a New York-based research boutique. Before arriving on Wall Street, Barbera served as a staff economist for U.S. Senator Paul Tsongas and as an economist for the Congressional Budget Office. He received a B.A. and a Ph.D. from Johns Hopkins University.

PHILIP F. BARTHOLOMEW is chief economist on the Democratic staff of the Committee on Banking and Financial Services in the U.S. House of Representatives. He is on detail from the Office of the Comptroller of the Currency, where he is senior international economic adviser in the Economics Department. Prior to joining the OCC as director of the Bank Research Division, he was principal analyst at the Congressional Budget Office, where he was responsible for making budget projections of the federal deposit insurance funds and writing studies on depository institution issues. He has also been an adviser to the Polish Ministry of Finance and financial economist at the Federal Home Loan Bank Board and the Federal

Housing Finance Board. Bartholomew has published on such topics as systemic risk, deposit insurance, the thrift crisis, the Canadian banking system, and the international regulation of depository institutions. He received a B.S. in mathematics from Villanova University and an M.A. and a Ph.D. in economics from the University of Pittsburgh.

BARNEY FRANK is the U.S. Representative from the Fourth Congressional District in Massachusetts. He is a member of the Judiciary Committee and the Banking Financial Services Committee. In a recent evaluation of Congress, *The Almanac of American Politics* said, "Frank is one of the intellectual and political leaders of the Democratic Party in the House, political theorist and pit bull at the same time." While in state and local government, he taught part-time at the University of Massachusetts Boston, the John F. Kennedy School of Government at Harvard University, and Boston University. In 1992 Frank wrote *Speaking Frankly*, about the role the Democratic Party should play in the 1990s, and he has published many essays on politics and public affairs. He has received honorary doctorates from the University of Massachusetts Dartmouth (then, Southeastern Massachusetts University), Wheaton College, Northeastern University, New England School of Law, Southern New England School of Law, and Bridgewater State College, among others. In 1997 he was awarded the Order of Prince Henry by the Government of Portugal. Frank graduated from Harvard College and Harvard Law School.

TIMOTHY F. GEITHNER is under secretary for international affairs of the U.S. Department of the Treasury, where he is responsible for advising the secretary and deputy on all aspects of international economic, financial, and monetary policy developments. Geithner earlier served at the Treasury as assistant secretary for international affairs, senior deputy assistant secretary for international affairs, and deputy assistant secretary for international monetary and financial policy. He has represented the United States in international forums and negotiations and played a role in shaping U.S. exchange rate policy and operations, the U.S. response to the Asian financial crisis, the recent agreement to replenish the IMF's resources, and the effort to strengthen the architecture of the international financial system. He

negotiated the agreement that created the IMF's expanded emergency reserve fund and the 1995 U.S.-Japan financial services agreement, and he chaired the G-10 working group on electronic money. Previously, Geithner worked for Kissinger Associates Inc. He received a B.A. in government and Asian studies from Dartmouth College and an M.A. in international economics and East Asian studies from the Paul H. Nitze School for Advanced International Studies of Johns Hopkins University.

WYNNE GODLEY is distinguished scholar at the Levy Institute. He is a professor emeritus of applied economics at Cambridge University and a fellow of King's College. His work at the Levy Institute has centered on the development and application of two models, one a macroeconomic model of the U.S. economy that uses a consistent and complete system of stocks and flows and the other a world model describing production in and trade between 11 country blocs that taken together represent the whole world. The models can be used to identify strategic problems, assess the implications of alternative policies, and suggest long-term policy responses. Godley was a member of HM Treasury's Panel of Independent Forecasters, known as "The Six Wise Men."

HENRY KAUFMAN is president of Henry Kaufman & Co., Inc., which specializes in investment management and economic and financial consulting. Previously, he was with Salomon Brothers Inc., where he was managing director, member of the executive committee, and in charge of the firm's four research departments. He was also a vice chairman of the parent company, Salomon Inc. Before joining Salomon Brothers, Kaufman was in commercial banking and served as an economist at the Federal Reserve Bank of New York. He received a B.A. in economics from New York University, an M.S. in finance from Columbia University, and a Ph.D. in banking and finance from New York University Graduate School of Business Administration. He also received an honorary doctor of laws degree from New York University and an honorary doctor of humane letters degree from Yeshiva University.

DANIELA KLINGEBIEL is a financial economist in the Financial Sector Policy and Strategy Group of the World Bank. Her policy work at the bank has

covered external finance and domestic financial sector issues. She has published extensively in the areas of management of banking crises, bank and corporate restructuring, and financial sector development and reform. Klingebiel received an M.A. in political science, an M.S. in economics, and a Ph.D. in economics from the Albert-Ludwigs University in Freiburg, Germany.

JAN A. KREGEL is a visiting senior scholar at the Levy Institute, a professor in the Department of Economics of the University of Bologna, and an adjunct professor of international economics at the Paul H. Nitze School of Advanced International Studies of Johns Hopkins University, where he has also been associate director of its Bologna Center. He is currently serving as a high-level expert in international finance in the New York Liaison Office of the United Nations Conference on Trade and Development. He is a permanent adviser for the Trade and Development Report of UNCTAD and is a member of the Scientific Advisory Boards of the Italian International Economic Center, Rome, and the Istituto per la Ricerca Sociale, Milan. Kregel has held permanent and visiting positions in universities in the United Kingdom, the United States, the Netherlands, Belgium, France, Germany, and Mexico. Among his written works, which have been published or translated in seventeen languages, are several books in the field of Post Keynesian economic theory, including *The Reconstruction of Political Economy*, 2d ed. (Macmillan, 1975) and *Origini e sviluppo dei mercati finanziari* (1996), and over a hundred articles in edited books and scholarly journals. Kregel received his training in economics at Rutgers University and Cambridge University.

DAVID A. LEVY is vice chairman of the Levy Institute and director of its Forecasting Center. Since 1978 he has edited, with S Jay Levy, *The Levy Institute Forecast*, a monthly report on U.S. economic conditions and macroeconomic profits analysis. They are also co-authors of *Profits and the Future of American Society* (HarperCollins, 1983), which explains how a macroeconomic perspective on the economy's generation of profits provides insight into national policy issues and forecasting economic performance. Levy is engaged in research on current economic performance, federal budget policy, long-term economic and financial imbalances and instability, and

cyclical dynamics. He has served as a member of the Public Infrastructure Subcouncil of the Competitiveness Policy Council and the President's Commission to Study Capital Budgeting. Levy is a consultant to corporations and financial institutions, is widely cited in the business and financial press, and has testified before Congress on economic issues. He received a B.A. from Williams College and an M.B.A. from Columbia University Graduate School of Business.

MARTIN MAYER, a guest scholar at the Brookings Institution, has been writing about financial matters for four decades. His books on banking and business include *Wall Street: Men and Money* (1955), *Madison Avenue, USA* (1958), *The Bankers* (1975), *The Fate of the Dollar* (1980), *The Money Bazaars* (1984), *The Greatest Ever Bank Robbery* (1990), *Stealing the Market* (1992), *Nightmare on Wall Street* (1993), *The Bankers: The Next Generation* (1997), and *The Fed and the Markets* (Free Press, forthcoming). He is currently senior columnist for OnMoney.com and has written for virtually all the business publications, among them *Fortune*, *Barron's*, *Institutional Investor*, and *Forbes*. From 1987 to 1989 he wrote a twice-monthly front-page column in *American Banker*. Mayer served on the President's Panel on Educational Research and Development in the Kennedy and Johnson administrations and was a member of the National Commission on Housing for Ronald Reagan. He received a B.A. from Harvard College.

JAMEE K. MOUDUD is a resident scholar at the Levy Institute. He is a monetary macroeconomist who is working with Distinguished Scholar Wynne Godley on the Levy Institute macroeconomic model of the U.S. economy. Moudud's other research is on growth and cycles, with a focus on the role of effective demand and growth in Keynes, Harrod, and classical political economy. In addition, he and Levy Institute resident research associate Ajit Zacharias are examining the institutions of state intervention and the macroeconomic consequences of intervention in the United States. With Anwar Shaikh, of New School University, he is working on a model of determinations in the long run of the rate of interest on bank credit. Moudud received a B.S. in materials science and engineering and an M.Eng. in electrical engineering from Cornell University and a Ph.D. in economics from New School University.

DIMITRI B. PAPADIMITRIOU is president of the Levy Institute, executive vice president of Bard College, and Jerome Levy Professor of Economics at Bard College. He is currently serving as vice chairman of the Trade Deficit Review Commission, a bipartisan congressional panel. He has been a visiting scholar at the Center for Economic Planning and Research (Athens), a Wye fellow at the Aspen Institute, and a member of the Competitiveness Policy Council's Subcouncil on Capital Allocation. Papadimitriou's research interests include financial modernization, community development banking, monetary and fiscal policy, employment growth, and distribution of income and wealth; with Levy Institute visiting senior scholar L. Randall Wray, he is examining the effects of demographic shifts on the labor market in an evaluation of the need to revise policies concerning employment and Social Security. Papadimitriou is the general editor of The Jerome Levy Economics Institute book series and is a contributor to and editor of many titles in the series, such as *Stability in the Financial System* (Macmillan and St. Martin's Press, 1996) and *Modernizing Financial Systems* (Macmillan and St. Martin's Press, 1999). He is a member of the editorial board of *Review of Income and Wealth*. Papadimitriou received a B.A. from Columbia University and a Ph.D. from New School University.

ROBERT W. PARENTEAU is director and economic strategist at Dresdner RCM Global Investors. As the economic strategist, he applies macroeconomic insights to equity, fixed income, and balanced portfolio strategy decisions and contributes to global and domestic asset allocation, sector, factor, and industry selection. He also coordinates the top-down view between the U.S. fixed income and equity groups and writes the quarterly equity enclosure to large cap U.S. clients. Parenteau is a regular lecturer for all three levels of the Chartered Financial Analyst (C.F.A.) preparation course sponsored by the Security Analysts of San Francisco. He holds a B.A. from Williams College and a C.F.A. degree.

ERNEST T. PATRIKIS is senior vice president and general counsel of American International Group Inc. Previously, he was first vice president of the Federal Reserve Bank of New York. He has served as an alternate member and as deputy general counsel of the Federal Open Market Committee and as a



member of the staff of the President's Working Group on Financial Markets and the Committee on Payments and Settlement Systems of the G-10 central bank of governors. Patrikis is a vice chair of the International Practice Section of the New York State Bar Association and is a member of the Securities Law Committee of the Association of the Bar. He is also a member of the advisory committee of the Business Council for the United Nations, a member of the advisory council of the Morin Center for Banking and Financial Law Studies at Boston University Law School, a director of the international Swaps and Derivative Association, and a member of the Council on Foreign Relations. Patrikis received a B.A. from the University of Massachusetts and a J.D. degree from Cornell Law School.

RONNIE J. PHILLIPS is a professor of economics at Colorado State University. His current research interest is the role of the Federal Reserve banks in the payments system. He is a past president of the Association for Evolutionary Economics and has been a visiting scholar in the Division of Insurance at the Federal Deposit Insurance Corporation, a visiting scholar in the Bank Research Division at the Office of the Comptroller of the Currency, and a resident scholar at the Levy Institute. Phillips has also taught at Texas A&M University and has published widely on banking issues and public policy. He received a Ph.D. from the University of Texas at Austin.

H. ONNO RUDING is vice chairman of Citibank, where one of his main responsibilities is to act as senior officer for contacts with the bank's corporate, investor, and public sector clients in North America, Europe, and Japan. He has served as a director of Citicorp and vice chairman of Citicorp/Citibank in New York and serves as vice chairman and director of Citicorp and Citibank N.A. Previously, Ruding was chairman of the Netherlands Christian Federation of Employers, executive director of the International Monetary Fund in Washington, D.C., a member of the board of managing directors of Amsterdam-Rotterdam Bank (AMRO Bank), and chair of AMRO International Ltd. in London. He has also served as the minister of finance of the Netherlands, in which capacity he held the position of chair of the Interim Committee of the IME, and was chairman of the board of governors of the Asian Development Bank and Inter American

Development Bank. Besides serving on numerous boards, Ruding is a member of the Trilateral Commission, the Committee for European Monetary Union, and the International Advisory Committee of the Federal Reserve Bank of New York. He received an M.A. in economics and a Ph.D. in economics from Erasmus University, Rotterdam.

FRANCES M. SPRING is assistant director of the Levy Institute, where she has overall responsibility for public information and is the general editor of the Public Policy Briefs and Policy Notes series. Before joining the Levy Institute, she worked at a private firm as a consultant to public and private sector entities on issues of tax policy, economic development, and education finance. She also taught economics at the University of Michigan at Flint and Michigan State University. Spring received a B.B.A. from Eastern Michigan University and did graduate work at Michigan State University.

SRINIVAS THIRUVADANTHAI is a resident scholar at the Levy Institute Forecasting Center, where he has been building models to predict consumption behavior and the personal saving rate and to estimate the impact of the stock market "wealth effect" on consumption. He has taught at Long Island University. Previously, as an assistant manager at the Industrial Credit and Investment Corporation of India in Bombay, he evaluated the economic and financial viability of projects seeking financial assistance and performed corporate and business unit valuation for direct investment and initial public offers. Thiruvadanthai received a bachelor of technology in mechanical engineering from the Indian Institute of Technology, a postgraduate diploma in management from the Indian Institute of Management, and an M.A. and a Ph.D. in economics from Washington University in St. Louis.

KENNETH H. THOMAS has been an independent bank analyst and consultant and a lecturer in finance at the Wharton School of Business for many years. He has advised federal bank regulators on public policy issues, testified before Congress several times, and speaks regularly on banking and thrift industries. Many of the recommendations Thomas offered in his book *Community Reinvestment Performance* (Probus, 1993) were implemented in the 1995 Community Reinvestment Act. His most recent book, *The CRA*

Handbook (McGraw Hill, 1998), contains a comprehensive evaluation of CRA exams, including a new technique for evaluating and quantifying CRA "grade inflation." Thomas received a B.S. in business administration from the University of Florida, an M.B.A. in finance from the University of Miami, and an M.A. and a Ph.D. in finance from the Wharton School.

FRANK A. J. VENEROSO runs his own global investment strategy and money management firm with a group of partners. Formerly, he was a partner of Omega Advisors, a hedge fund, where he was responsible for investment policy formulation. Prior to this, acting through his own firm, he was an investment strategy adviser and economic policy consultant in the areas of money and banking, financial instability and crisis, privatization, and the development and globalization of emerging securities markets. His clients have included the World Bank, the International Finance Corporation, and the Organization of American States, and he has been an adviser to the governments of Bahrain, Brazil, Chile, Ecuador, Korea, Mexico, Portugal, Thailand, Venezuela, and the United Arab Emirates. Veneroso is the author of many papers on subjects in international finance such as the Asian financial crisis, an Asian monetary fund, and the theory of financial instability and its policy implications for Asia. He graduated from Harvard University.

NANCY A. WENTZLER is the director of economic analysis at the Office of the Comptroller of the Currency. She has held positions at the Office of Thrift Supervision, Commodity Futures Trading Commission, and the Executive Office of the President and has served as a consulting economic adviser to the Department of Labor. She taught in the Economics Department of Pennsylvania State University and currently serves as an adjunct professor at Virginia Polytechnical Institute. Wentzler received a B.S. in economics from Pennsylvania State University and a Ph.D. in economics from the University of Wisconsin, Madison.

BYRON R. WIEN is managing director and the chief investment strategist for the United States at Morgan Stanley Dean Witter & Co. He was a portfolio manager for 20 years before joining Morgan Stanley. Wien is the treasurer and a director of the Ackerman Institute for the Family, on the board of

directors and executive committee of the Manhattan Institute, a director of the Soros Economic Development Fund, and a trustee of the Investment Management Workshop of the Association for Investment Management and Research. He is on the Loeb Drama Center Visiting Committee and on the Executive Committee of the Overseers' Committee on University Resources at Harvard University and is a past president and chairman of the Harvard Business School Club of Greater New York. In 1995 Wien wrote a book with George Soros on Soros's life and philosophy. He received an A.B. from Harvard College and an M.B.A. from Harvard Business School.

L. RANDALL WRAY is a professor of economics at the University of Missouri-Kansas City, a senior research associate at the university's Center for Full Employment and Price Stability, and a visiting senior scholar at the Levy Institute. His current research is a critique of orthodox monetary policy and the development of an alternative. He is also writing on full employment policy, modern fiat money, and the monetary theory of production. Wray is a past president of the Association for Institutional Thought and is currently on the board of directors of the Association for Evolutionary Economics. He has published widely in journals and is the author of *Understanding Modern Money: The Key to Full Employment and Price Stability* (Elgar, 1998). Wray received a B.A. from the University of the Pacific and an M.A. and a Ph.D. from Washington University in St. Louis.

AJIT ZACHARIAS is a resident research associate at the Levy Institute. He is currently doing research on the dynamics of industrial profitability, econometric methods, and economic theories of the state. He and Levy Institute resident scholar Jamee K. Moudud are examining the institutions of state intervention and the macroeconomic consequences of intervention in the United States. Zacharias received an M.A. from the University of Bombay and a Ph.D. from New School University.

“If you were unemployed and were willing to work and able to work and could find no work, what would you do?” This question was directed to William Howard Taft. The United States was in the midst of the economic panic of 1908 and the future president had just completed a campaign speech. “God knows,” Taft replied, “I don’t.”

Jerome Levy, 26-year-old head of a small wholesale business and erstwhile student of physics, read about the incident in his newspaper. He mulled over Taft’s candid admission and the problem of the unemployed. That morning Levy began to study economics.

Levy 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 employment 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 his quest. 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 John Maynard Keynes. 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 during the next decade and a half strengthened his conviction. 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.

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 Levy Institute carries on in the spirit of Jerome Levy’s efforts to overcome economic problems and improve the human condition.

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