A Conference of
The Jerome Levy Economics Institute

Restructuring the Financial Structure for Economic Growth

November 21-23, 1991
November 21, 1991

Dear Colleague:

I am delighted, on behalf of the Jerome Levy Economics Institute of Bard College, to welcome you to our conference on **Restructuring the Financial Structure for Economic Growth**.

The Institute, founded in 1986, is an autonomous, independently endowed research organization. It is non-partisan and open to the examination of diverse points of view, and dedicated to public service. Each year a number of scholars from around the world are chosen to serve as resident research fellows. In addition, Institute-sponsored workshops and conferences bring together economists, business leaders, elected officials and others to analyze contemporary economic problems and suggest solutions.

Thank you for being with us, and enjoy the conference. I look forward to seeing you again at subsequent activities in the years ahead.

Sincerely,

Dimitri B. Papadimitriou
Executive Director

DBP/sh
RESTRUCTURING THE FINANCIAL STRUCTURE
FOR ECONOMIC GROWTH

A Conference of
THE JEROME LEVY ECONOMICS INSTITUTE
of Bard College

November 21-23, 1991

Thursday, November 21st

10:30 am REGISTRATION

12:00 noon LUNCH

2:00 pm WELCOMING REMARKS

Dimitri B. PAPADIMITRIOU, The Jerome Levy Economics Institute and
Bard College

2:30 pm "The Performance of the Economy Since the October 1987 Crash"

David A. LEVY, Director, Forecasting Center, The Jerome Levy Economics
Institute

3:00 pm SESSION No. 1

Hyman P. MINSKY, The Jerome Levy Economics Institute--"The Rationale for the
Conference: An Agenda for a Good Financial Economy"

Martin WOLFSON, University of Notre Dame--"The Missing Links in a Debt
Deflation Process: Profits, Output and Prices since 1987"

Bernard SHULL, Hunter College-CUNY--"The Limits of Prudential Supervision:
Economic, Structural and Competent"

DISCUSSION: Jane D'ARISTA, Boston University School of Law
Perry MEHLRLING, Barnard College
Milind RAO, The Jerome Levy Economics Institute and Colgate University
Thursday, November 21st--continued

5:30 pm       RECEPTION
6:30 pm       DINNER

Speaker: Kenneth WHIPPLE, Ford Motor Company--"Financial Services-Ford’s Counterbalance"

Friday, November 22nd

9:00 am       SESSION No. 2

Steven FAZZARI, Washington University-St. Louis--"Corporate Indebtedness and Investment Activity"

Teresa GHILARDUCCI, University of Notre Dame--"The Management of Pension Fund Portfolios"

Richard KOPCKE, Federal Reserve Bank of Boston--"The Capitalization and Portfolio Risk of Insurance Companies"

John CASKEY, Swarthmore College--"Fringe Banking: The Shape of Things to Come"

DISCUSSION:    Gary DYMSKI, University of California-Riverside  
                Paul DAVIDSON, University of Tennessee  
                Jonathan GOLDSTEIN, The Jerome Levy Economics Institute and Bowdoin College

12:30 pm       LUNCH

Speaker: The Honorable Anthony M. SOLOMON, Former Assistant Secretary of State for Economic Affairs, Undersecretary of the Treasury, Monetary affairs & President of the Federal Reserve Bank--"Finance Reform in the United States: A Perspective on the Options"
Friday, November 22nd--continued

2:00 pm  SESSION No. 3

Walker TODD, Federal Reserve Bank of Cleveland--"The RFC: A Poor Idea Until
We Think of the Alternatives"

DISCUSSION: Richard W. NELSON, Federal Home Loan Bank of
San Francisco

3:30 pm  POLICY FORUM

Moderator: Hyman P. MINSKY, The Jerome Levy Economics Institute

Sherman MAISEL, University of California-Berkeley
Richard ASPINWALL, The Chase Manhattan Bank
Thomas A. JOHNSON, Former President, Manufacturers Hanover
Trust Company
Dale HEMMERDINGER, ATCO

5:30 pm  RECEPTION

6:30 pm  DINNER

Speaker: Robert BARBERA, Chief Economist, Executive Vice President,
Lehman Brothers--"U.S. and Global Finance Market Prospects"
Saturday, November 23rd

9:00 am  SESSION No. 4

Jan KREGEL, University of Bologna--"Markets Versus Institutions-The Financing of Business"

Robert Z. ALIBER, The University of Chicago--"Markets, Institutions and Patterns of Finance"

DISCUSSION:  John WENNINGER, Federal Reserve Bank of New York

12:00 noon  LUNCH

Speaker:  Alex POLLOCK, Federal Home Loan Bank of Chicago--"The Constituent Parts of Banking: An Insight into the Necessity for a Structural Revolution"

1:45 pm  PANEL DISCUSSION

"Coming Problems-Creating Growth"

Moderator:  Hyman P. MINSKY, The Jerome Levy Economics Institute

Albert G. HART, Columbia University
Wynne GODLEY, The Jerome Levy Economics Institute and University of Cambridge
S Jay LEVY, The Jerome Levy Economics Institute
LIST OF PARTICIPANTS

ROBERT Z. ALIBER, Professor of International Finance at the University of Chicago. He has written extensively about exchange rates, and international financial and banking relationships and policy problems. Recent publications include: Corporate Profits and Exchange Risk; The Reconstruction of International Monetary Arrangements; Money, Banking and the Economy, co-authored with Thomas Mayer and James S. Dusenberry. Prior to joining the Chicago Faculty, he was Senior Economic Advisor, Agency for International Development, Department of State, and staff economist for the Committee for Economic Development and the Commission on Money and Credit. He has consulted to the Board of Governors of the Federal Reserve System and to other US government agencies, the World Bank and the International Monetary Fund.

RICHARD ASPINWALL, Ph.D, Columbia University; Senior Vice President and Chief Economist, The Chase Manhattan Bank. His primary research interests are business strategies in financial markets and banking regulation. His work has appeared in numerous financial and economics journals and books. He is co-editor (with Professor Robert Eisenbeis) of Handbook for Banking Strategy, published by Wiley in 1985. Dr. Aspinwall is an Associate Editor of the Journal of Financial Services Research and a member of the Shadow Financial Regulatory Committee. He has also taught at the Graduate School of Business at Columbia.

ROBERT BARBERA, Ph.D, Johns Hopkins University; Chief Economist and Executive Vice President of Lehman Brothers. He is responsible for Lehman Brothers’ forecasts of global and U.S. economies and its economic research activities. Dr. Barbera joined Shearson Lehman Brothers in the merger with E.F. Hutton, where he served as Chief Economist from 1982 through 1987. In each of the last six years, he has been named to the Institutional Investor All-America Research Team, currently holding the number two ranking for economists. Prior to joining E.F. Hutton, Dr. Barbera spent several years in Washington D.C. as a legislative assistant for economics on the staff of Senator Paul Tsongas and subsequently as an economist at the U.S. Congressional Budget Office. Earlier, he lectured for two years at the Massachusetts Institute of Technology.

JOHN P. CASKEY, Ph.D, Stanford University; Associate Professor of Economics, Swarthmore College. Dr. Caskey is spending the 1991/92 academic year as a Visiting Fellow of the Economics Department at Yale University. His research interests cover a wide range of topics in monetary economics, including the delivery of financial services to low income households, the macroeconomics of debt deflations, and financial reforms in Africa.
JANE W. D'ARISTA, B.A., Barnard College; Associate Director for Program Development, Morin Center for Banking Law Studies, Boston University School of Law. She has been the Chief Finance Economist, Subcommittee on Telecommunications, Consumer Protection and Finance; Principal Analyst for International Affairs, Congressional Budget Office and Professional Staff Member of the House Banking Committee. Ms. D’Arista is the author of numerous reports and articles on monetary policy, international finance, developing country debt problems and financial restructuring.

PAUL DAVIDSON, Editor of the Journal of Post Keynesian Economics, holds the J. Fred Holly Chair of Excellence in Political Economy in the Department of Economics at the University of Tennessee, Knoxville. He received his Ph.D at the University of Pennsylvania where he worked with Sidney Weintraub. Among his works are Money and the Real World, International Money and the Real World, Controversies in Post Keynesian Economics, Economics for a Civilized Society, Macroeconomic Problems and Policies of Income Distribution and Economic Problems of the 1990s" Less Developed Countries, Europe, and the United States (both co-edited with J.A. Kregel) and "Is Probability Theory Relevant for Choice Under Uncertainty?: A Post Keynesian Perspective," in the Journal of Economic Perspectives.

GARY DYMSKI, Ph.D, University of Massachusetts-Amherst. Professor Dymski recently joined the Department of Economics at the University of California-Riverside after spending four years as Assistant Professor at the University of Southern California. Dr. Dymski has written extensively on banking, financial fragility, and the LDC debt crisis; his published articles appear in the Journal of Post Keynesian Economics, the International Trade Journal, and Capital Class, among others. He and Professor Robert Pollin of the University of California-Riverside are co-editing a festschrift in honor of Hyman Minsky (publication anticipated in 1992) and he has just completed a comprehensive empirical study of bank lending flows and services in the City of Los Angeles, undertaken jointly with Professor John Veitch of the University of Southern California. This study was released by Mayor Tom Bradley on November 6. Dr. Dymski has also written numerous papers on exploitation, capitalism and economic democracy. His published and forthcoming papers appear in Economics and Philosophy, the Canadian Journal of Philosophy and Policy, and the Review of Social Economy, among others.

STEVEN FAZZARI, Ph.D, Stanford University; Associate Professor of Economics at Washington University, St. Louis. Professor Fazzari teaches macroeconomics and studies the link between macroeconomic activity and finance, particularly the financial determinants of investment spending and the impact of debt on macroeconomic stability. His recent publications include co-editing the forthcoming book Financial Conditions and Macroeconomic Performance: Essays in Honor of Hyman P. Minsky and papers in the Brookings Papers on Economic Activity, Economic Inquiry, and the Review of Economics and Statistics.
TERESA GHILARDECCI received her Ph.D in Economics at the University of California-Berkeley. She is an Associate Professor of Economics at the University of Notre Dame. Her book, Labor’s Capital: The Economics and Politics of Employer Pensions will be published by MIT Press Spring 1992.

WYNNE GODLEY worked in the British Treasury for fourteen years before becoming Director of the Department of Applied Economics at Cambridge University. He is currently Professor of Applied Economics at Cambridge and is spending a year as Resident Scholar at the Jerome Levy Economics Institute of Bard College. His main interest is in the theory and practice of macroeconomic policy. On the one hand he is trying to undermine the neoclassical paradigm which, for the time being, dominates the practice and teaching of macroeconomics. On the other hand, he is developing an alternative macroeconomic theory based, in particular, on the work of Keynes, Kaldor, Hicks and Tobin.

JONATHAN GOLDSTEIN is an Associate Professor of Economics at Bowdoin College and is a Resident Scholar at the Levy Economics Institute of Bard College. His area of specialty is the microfoundations of business cycle theory. His previous work examines the cyclical behavior of mark-up pricing and its relation to profitability. He is currently working on a theory of investment demand which integrates the role of competition, profits and financial determinants.

ALBERT GAILORD HART, Ph.D University of Chicago; Professor of Economics Emeritus, Columbia University. Dr. Hart’s numerous publications include: Debts and Recovery, 1929 to 1937; Anticipations, Uncertainty and Dynamic Planning; and Money, Debt and Economic Activity, with Peter B. Kenen.

DALE HEMMERDINGER, President of The Hemmerdinger Corporation, a real estate ownership and development company based in New York City. The Hemmerdinger Corporation owns various properties and several service subsidiaries including - Atco Properties & Management, Inc., Atco Property Services Corporation, Atco Supply Company, and the Atco Construction Company. Mr. Hemmerdinger is on the board of Merchants Bank of New York, a publicly-held commercial bank, located in New York City, and he has been nominated to join the board of Mutual of America Life Insurance Company, also headquartered in New York City. Mr. Hemmerdinger is currently a member of the New York State Financial Control Board and the Advisory Council on State Productivity. He was formerly Commissioner of the City of New York on the Conciliation and Appeals Board, appointed by Mayor Koch and approved by the New York City Council. Mr. Hemmerdinger attended Brown University and received his B.A. and studied for an M.A. at New York University.
WILLIAM H. JANEWAY, Ph.D, Cambridge University; Managing Director, Head of the Venture Capital High Technology Team, E.M. Warburg, Pincus & Co., Inc. Dr. Janeway was formerly Vice President and Director of Corporate Finance at F. Eberstadt & Co., Inc. His experience encompasses twenty years of practical finance in investment banking and venture capital.

THOMAS S. JOHNSON, MBA, Harvard Business School; Former President of Manufacturers Hanover Corporation & Manufacturers Hanover Trust Company, New York and former President of Chemical Bank and Chemical Banking Corporation, New York. Mr. Johnson is a Trustee of Trinity College and the Institute of International Education and is a member of the Council on Foreign Relations, Inc. and other organizations.

RICHARD KOPCKE, Ph.D, Harvard University; Vice President and Economist in the Research Department of the Federal Reserve Bank of Boston. His responsibilities include briefing the President and the Board of Directors of the Bank on the economy and economic policy. Before joining the Bank in 1974, Mr. Kopcke was a lecturer at LaTrobe University, Melbourne, Australia. He has also taught macro-economics and finance at Harvard, Brown, and Boston University School of Management since joining the Federal Reserve Bank of Boston.

JAN KREGEL is Professor of Political Economy in the Faculty of Political Sciences of the Universita degli Studi di Bologna and Adjunct Professor of International Economics at the Johns Hopkins University Paul Nitze School of Advanced International Studies Bologna Center where he was Resident Professor of International Economics until 1990 and Associate Director from 1987-1989. He is the author of a series of books in the field of post Keynesian economic theory and over seventy-five publications of articles in scholarly journals including the Economic Journal, American Economic Review, Journal of Economic Literature, and Journal of Post Keynesian Economics, among others. Most recently he has edited Barriers to Full Employment (with A. Roncaglia and E. Matzner), Inflation and Income Distribution in Capitalist Crisis: Essays in memory of Sidney Weintraub, both published by Macmillan and (with P. Davidson) Macroeconomic Problems and Policies of Income Distribution, Elgar, 1989 and Economic Problems of the 1990's, Elgar, 1991.

S JAY LEVY, Chairman of the Board of Governors of the Jerome Levy Economics Institute of Bard College, began his economic career in 1946 when he and his father, Jerome Levy, started an economic forecasting business for a limited number of clients. In 1949 they inaugurated Industry Forecasts, which today is the oldest paid circulation letter devoted to economic forecasting analysis. S Jay Levy has been a consultant to major industrial and financial corporations and has lectured and written widely on economic matters. He is the co-author, with David A. Levy, of Profits and the Future of American Society, 1983.

SHERMAN J. MAISEL, Ph.D, Harvard University. President, Sherman J. Maisel Associates, Economic Consultants. California State Professor of Real Estate and Urban Economics, Emeritus, University of California, Berkeley. Formerly member of the Board of Governors of the Federal Reserve System. At the request of the FSLIC, served as chairman, board of directors while liquidating two failed S&Ls. His publications include: Risk and Capital Adequacy in Commercial Banks; Real Estate Finance; Managing the Dollar; Macroeconomics.

PERRY MEHRLING, Ph.D, Harvard University; Assistant Professor of Economics, Barnard College. Dr. Mehrling’s research interests include theoretical and empirical studies in the credit approach to money.

HYMAN P. MINSKY, Ph.D, Harvard University; Distinguished Scholar Jerome Levy Economics Institute of Bard College. Formerly Professor of Economics, Washington University, St. Louis. Professor Minsky has also taught at Brown University and the University of California, Berkeley. He is the author of John Maynard Keynes, Can "It" Happen Again? and Stabilizing an Unstable Economy as well as a contributor to many professional journals and the public press. Dr. Minsky is a member of the Board of Advisors of the Jerome Levy Economics Institute and has been a member of the Executive Committee of the Eastern Economic Association.

RICHARD W. NELSON has headed banking and financial research groups at Federal Home Loan Bank of San Francisco, Chemical Bank and the Federal Reserve Bank of New York. He also served as Professor of Management at the State University of New York at Binghamton and as a consultant in the executive office of the President of the United States. Dr. Nelson holds a Ph.D from Yale University and is a member of the Blue Chip Financial Forecast Panel. His research centers on management and public policy issues affecting the financial services industry. Recent studies have investigated the cost structures of banks and thrift institutions, the financing strategies of depository institutions, the financial institutions' regulatory structure, bank capital, causes of bank and S&L failures, the theory of banking structure and interstate banking.
DIMITRI B. PAPADIMITRIOU, Ph.D, Graduate Faculty, New School for Social Research; Executive Vice President and Professor of Economics, Bard College and Executive Director of the Jerome Levy Economics Institute of Bard College and the Bard Center. Visiting Scholar, Center for Economic Planning and Research (Athens, Greece); Wye Fellow, Aspen Institute. Dr. Papadimitriou is the Editor of Profits, Deficits and Instability (Macmillan Press and St. Martin’s Press, 1991); Aspects of Distribution of Income and Wealth (Macmillan Press, 1991); with Steven Fazzari, Financial Conditions and Macroeconomic Performance, Essays in Honor of Hyman P. Minsky (M.E. Sharpe, 1991); and with Edward N. Wolff, Poverty and Prosperity in America at the Close of the Twentieth Century (Macmillan Press and St. Martin’s Press, 1992).

ALEX J. POLLOCK is President and Chief Executive Officer of the Federal Home Loan Bank of Chicago. Previously he was a visiting scholar at the St. Louis Federal Reserve Bank, President and Chief Executive Officer of Community Federal Savings in St. Louis; and President of the Marine Bank, N.A., in Milwaukee. He served at Continental Illinois National Bank, Chicago, in various responsibilities in both Europe and the U.S., including Senior Vice President of Corporate Planning Research and Development. The author of numerous articles on banking and management, he is a graduate of Williams College, and holds masters degrees from the University of Chicago and Princeton.

MILIND RAO, Ph.D, Columbia University; Resident Scholar of The Jerome Levy Economics Institute and Assistant Professor of Economics, Colgate University. Dr. Rao’s research interests include monetary growth theory and the financial structure of the U.S. economy.

BERNARD SHULL is Professor of Economics at Hunter College, a member of the Graduate Faculty of the City University of New York and a Special Consultant to National Economic Research Associates, Inc. He received his Ph.D in Economics from the University of Wisconsin and has consulted and undertaken projects with a number of government agencies, including the Federal Reserve Board on bank holding company matters, the Federal Deposit Insurance Corporation on supervision and regulation, the Justice Department on bank mergers and acquisitions, and the Small Business Administration on lending to small businesses. He was also a consultant to the President’s Commission on Financial Structure and Regulation (Hunt Commission). Prior to teaching at Hunter College, Professor Shull held various positions with the Federal Reserve Board, including Associate Advisor, Chief of the Banking Markets Section and Research Director for the Federal Reserve’s Reappraisal of the Discount Mechanism.
ANTHONY M. SOLOMON is Chairman of the Economic Program at the Institute for East-West Security Studies and former Chairman of the Board of S.G. Warburg (U.S.A) Inc. He also served as a Director of S.G. Warburg Group and President and Chief Executive Officer of the Federal Reserve Bank of New York. Prior to joining the Federal Reserve Bank of New York, Mr. Solomon served for approximately three years as Undersecretary of the United States Treasury for monetary affairs and previously served as Assistant Secretary of State for Economic Affairs. He is currently serving as Chairman of two mutual fund boards managed by Mercury Asset Management Company of the S.G. Warburg Group and serves on the Board of Overseers of the TIA/CREF.

WALKER TODD is assistant general counsel and research officer at the Federal Reserve Bank of Cleveland. He is engaged in research on banking, central banking, and monetary topics, especially those related to international debt and the regulation of the banking system and financial markets. Prior to joining the Bank, Mr. Todd was assistant counsel at the Federal Reserve Bank of New York, and in 1981 was a member of the U.S. negotiating team that obtained the release of fifty-two United States hostages from Iran and established an international tribunal plan for the adjudication of claims against Iran in the Hague, Netherlands. Mr. Todd holds a doctoral degree in French from Columbia University and a J.D. from Boston University School of Law. He is the author of several publications and has made four foreign missions for the World Bank, traveling to Pakistan, Algeria, and twice to Brazil. Since February 1991, Mr. Todd has been on leave of absence from the Bank and has been continuing his research and writing under a grant from the Gulliver Foundation, San Francisco, California.

JOHN WENNINGER, Ph.D, Washington University-St. Louis; Senior Research Officer in the research area of the Federal Reserve Bank of New York, responsible for macroeconomic policy studies. He joined the bank as an economist in the market statistics division and later held various posts in the research and statistics department and the loans and credits area, of which he became Assistant Vice President in 1989. Dr. Wenninger has contributed several articles to the bank’s Quarterly Review on topics related to monetary policy, the monetary aggregates, financial innovation, international capital flows and the labor market. He has also completed research projects on payment system issues and on the liquidity concepts used in the funding strategies of the banks and investment banks.

KENNETH WHipple, an Executive Vice President of Ford Motor Company, has been President of the Ford Financial Services Group since March, 1988. Prior to his present assignment, Mr. Whipple served as Chairman and Chief Executive Officer of Ford of Europe, Inc., and President of Ford Motor Credit Company. Mr. Whipple holds a bachelor’s degree in business and engineering from Massachusetts Institute of Technology.

MARTIN H. WOLFSON, Ph.D, The American University; Assistant Professor of Economics, University of Notre Dame. Dr. Wolfson worked for six years as an Economist at the Board of Governors of the Federal Reserve System in Washington, D.C., in the Division of Banking Supervision and Regulation and the Division of Monetary Affairs. His current research focuses on financial crises and instability and the historical development of financial institutions in the U.S. economy. He is the author of Financial Crises: Understanding the Postwar U.S. Experience (M.E. Sharpe, 1986).