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Excerpts from unknown Testimony

Hyman P. Minsky Ph.D.

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(p.8)

Hyman Minsky: I want to point out something and Dick Aspinwall is the man who really instructed me on this many years ago. And I'll start in a peculiar way. We have a very successful growing portion of the banking system that is very profitable and that's the currency exchanges in our various ghettos. And these currency exchanges will arrange for you to make a payment at a distance, will transfer from one form of money to another form for you, for a fee. And there is a fee for every service and the fees are so arranged that given the risk involved they make money on it. They charge more, much more for cashing a personal check than they do for the monthly welfare checks. In Illinois in fact the welfare checks, I believe, are sent to these currency exchanges and in exchange for getting them sent there they only

charge 1% of the amount to cash it. One of the things we have is a payment system that's paid for by the difference between the spread between assets and liabilities. And we pay for it that way and now the other part of the payment system now under attack in Boston, I believe, is you pay for it by a vendors discount. That's the part that goes through the credit cards - both of these are profitable. So that one thing that is missing I think from the - is this free checking business and if banks moved under the pressure of competition, under the pressure of market circumstances, to charging something approximating the cost of operating the payment system make it a fee for services than the profitability of banks is over against the money market mutual which allows you what 5 checks a month or something and a minimum price value to the check. Every time you are in the supermarket line and somebody is writing a check and you are waiting for it all to blend. So that's one thing. I think everything is mute and the entire discussion of reform - what are the entry conditions into banking because we do have this growing essentially free entry someplace they're not registered - some places they are registered, part of the banking system is growing to do the service function and banks in part grew out of doing the payments mechanism.

And incidentally about the narrow banks, if you go back to a no government bond situation, S&L's were narrow banks. Very restricted in assets, very restricted in liabilities and they worked for a while. I think we should also broaden the framework

and this comes to the closing remarks that Ben made. You really interested int he banking and financial system because it interrelates somehow or other with the functioning of the economy. You're interested in employment, efficiency, of the allocation of investment and also being Keynesian you're interested in the adequacy of the quantity of the investment because it is a key element to maintaining aggregate demand or demanding profit whichever way you want to look at it. And therefore the question is what type of financial structure is pro capital development of the economy. That's the quotation from Keynes regard to the casino is that if you've done it by a casino effect it's not well done and are we doing it well is the question that we should ask. Al Hart and a number of other speakers have pointed out the infrastructure problem. We haven't done that part well. Not in total because part of the infrastructure is the telephone system and we do that very well. I'm getting on the wrong side of the political fence as far as I can see because I'm arguing for fee for services all around and the fee for service system seems to work and we don't seem to be doing well either in banking or in roads or highways or bridges but we don't have a strong fee for service system.

What type of financial system will do the capital development well. Now there is another point which I raised in my talk which I would like to put ont the floor here. There has been an enormous change. When I was a boy 700 years ago in Chicago, the way in which you prepared for retirement was by

buying a four flat - 2 x 2 and while you were working you lived in one apartment and the rents from the other three paid the mortgage off and then when you retired you had an apartment and you got three rents. So that was the retirement scheme. Of course, the people who started in 1925, by 1930 five years down on the mortgage found they didn't have their own income and they didn't have the renters income so the thing collapsed but that's alright it was the retirement. Now the retirement scheme is oft the money goes to TIA, oft the money goes to California or New York funded thing and they become the big owners of the liabilities of the corporate structure. And they become massive players. At one time, I believe the term junk bonds, entered into the language as not being eligible for the portfolios of these institutions and yet in the recent games that were played it was these institutions in part the parallel unsteadiness that were the investors in junk and even the investors I believe in the buyout funds that started these things. So what we have to do is start with the sort of two question:

One is a Janeway question, What is the appropriate liability structure for this set of capital assets with this perspective cash flow and the operating environment in which it is going to work (end of tape) not the narrow technical banking.

evidence we've heard in the last few days would support, we're going through a phase, however we resolve it, or whatever kind of deposit insurance we have or we don't, somehow or other the banks will have a whole change imposed on them by their own mistakes, attitudes are going to be very careful about lending money. The regulators are going, as they already are, to be watching much more closely, whether we have four kinds or two kinds of regulators as involved in the treasury proposal.

And everything will straighten out, and twenty years from now this experience will be forgotten, the regulators will not be watching closely, the banks will be taking chances that they shouldn't be taking. So maybe what we do isn't going to make very much difference.

Would you like to make a closing comment on that Hy, and then we will open up the discussion.

HYMAN MINSKY:

In terms of the specific weakness of the S&L's and the banks, I never understood why or how the S&L's took on a function that might cost them 2 or 3 percent of their total liabilities without any increase in revenues, and that's what we did when we allowed checking accounts against S&L deposits. You added the cost without doing anything appreciable to revenues.

The fundamental idea of course is that the liability structure used to carry particular kinds of operating assets, which are there because they are going to earn profits, cash flows, or what have you, is a function of how the system is operated and expectations in the institutional structure.

There have been profound changes in this institutional structure, some of which matured in the last decade. The question now is, is there some flaw in the financial structure that is responsible for, let's say, the retardation of investment in this country? There's a flaw in our financial structure, in one sense, that leads to certain types of infrastructure being starved while other types just boom like mad.