

10-1991

The Rationale for the Conference: An Agenda for the Good Financial Economy

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as of August 5, 1991.

f#3: Schedule

Schedule - November Conference

Reconstituting the Financial Structure:
Broadening the Agenda.

"Is it broke and if so how and what do we do about it?"

From Thurs. Afternoon Nov. 21
until Sat. Nov. 23 at 4:00 PM.

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Alternative titles:

Reconstituting the Financial Structure: Beyond Placebo's

The Financial System: Is, it Broke and if so how do we fix it?

The Inadequacy of The Current Agenda for Banking and Financial Reform

In Particular:
Constructing a Financial Structure That Facilitates Economic Progress.

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Some background remarks for planning for the November Conference.

What are the objectives the proposals that the Administration has put forth and that the Congress is working on serve and are these adequate for the job that really needs to be done? Presumably the Administrations proposals and the legislation that is making its way through the Congress reflect some diagnosis of what went or is wrong with the economy and the financial structure and a theory or model which leads to the view that particular proposals can correct what is diagnosed as being wrong.

One simple statement of what is wrong is that the deposit insurance funds have run out of money. At this relatively simple level all that Congress needs to do is

1. replenish the various deposit insurance funds and
2. adopt some rules that strengthens the hands of the managers of the insurance fund so that a protected institution cannot "free ride" on the insurance fund.

The above approach to the current crisis depends upon a theory - often unstated - that the arrangement of financial institutions really do not affect the behavior of the economy, so that none of the shortfalls of the economy can be laid to institutional arrangements in finance. In one form or another the irrelevance of banking and finance to the longer run essential behavior of the economy is a tenet of economic orthodoxy. The disruptive events and crises of banking and finance of the past several years act as an outside shock and displacement of the economy which will not have either serious or long term effects upon system performance.

Proposals for legislating institutional reform that go beyond replenishing the insurance fund and giving the administrator's of deposit insurance greater powers to protect the funds they are responsible for from the machinations of dirty rotten scoundrels implicitly or explicitly assume that the structure of financial institutions affect system performance. The proposals for changing the structure of banking to allow organizations whose primary activity is business or commerce to own banks or engage in banking needs implicitly or explicitly rest upon a theory which holds that system behavior is adversely affected when commerce and banking are separated, or favorably affected if "universal banking" is allowed. It may also reflect an implicit model of the economy which leads to the proposition that "The capital development of a capitalist economy is done better if there are aspects of corporatism in the country's economic structure than if the economy is purely competitive."

A famous quotation from Keynes is "When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done." The inferences I draw from this citation are:

1. that "the capital development of a country" can be done well or ill
2. that the structure and function of the financial system affects how well or poorly this "capital development" is done and
3. that when deal making and the pursuit of quick capital gains, which are divorced from expected increases in the underlying profit flows, become the principal activities of the financial structure the capital development assuredly will be poorly done.

Keynes also concluded that a "...a somewhat comprehensive socialisation of investment.." will prove to be necessary if the capital development of the economy is to secure "...an approximation to full employment..", meaning by socialisation "...all manners of compromises and of devices by which public authority will co-operate with private initiative.

In the financial structure put in place in the United States in the 1930's Savings and Loan Associations were given special government protections on both the asset and liability side because it was desired to promote both the building of housing and the development of a large class of holders of property. The capital development of the United States in the half century that followed was biased to favor the building of one to four family housing and the accumulation of wealth in the form of equity in owned homes. Similarly rural electrification in the aftermath of the great depression was a project that involved the cooperation of local often private authority and public authority.

Thus one aim of the conference is to try to make precise what is the model of system performance that underlies various proposals for reform or adapting the financial structure in the light of the greater instability and fragility that the financial system has exhibited over the past decades.

In examining proposals for reform of the financial structure it is necessary to recognize that the process of change does not halt with the enactment of legislation. Since the mid 1960's - the date of the first significant financial crunch of the post war epoch - institutional changes in response to market pressures in the form of either profit opportunities or the need to escape from dire predicaments have taken place at a rapid rate. Legislated institutional changes must be undertaken in the full knowledge that there is a strong propensity to avoid and evade regulatory constraint. Critical inquiries into what can be expected to happen after legislation to implement some approach is put into place will also be part of the subject matter of the Conference.

CONFERENCE SCHEDULE

THURSDAY NOVEMBER 21

10:00 am Registration

12:30 noon Lunch

2:00 pm Welcoming Remarks,
Housekeeping details

2:15 pm
The Rationale for the Conference: An Agenda for a Good
Financial Economy. The Henry Simons bit
HP Minsky ok

The Performance of the Economy Since the October 1987 Crash
Which Was Followed by (encompasses) the Savings and Loan
and Banking Crises
David Levy. ok

The Missing Links in a Debt Deflation Process
Profits, Output and Prices since 1987.
Marty Wolfson ok

The limits of regulation and examination: Economic,
structural and competence
Bernie Schull ok

5:30 Drinks and

Dinner

*****After Dinner Speaker*****

FRIDAY NOVEMBER 22

AM

Corporate Indebtedness and Investment Activity
Fazzari ok

The Size and Asset Structure of Pension Funds:
The Management of Pension Fund Portfolios.
Theresa Ghilarducci ok

Insurance

Richard Kopke
Federal Reserve Bank of Boston.

Fringe Banking: The shape of things to come.
John Caskey ok
Swarthmore College.

Gary Dymski

*****Luncheon Speaker*****
FRiday PM

The RFC : A Bad poor Idea until we think of the
alternatives..
Walker Todd ok

Richard Nelson
Federal Home Loan Bank of San
Fransisco.

Corrigan's crowd.

Harris, chief Economist of the
Senate banking Committee.

Kaufman, Loyala of Chicago.

The Constituent Parts of Banking: An (perspective on)
Insight into the Necessity for a Structural Revolution.
Alex Pollock, (Visiting Scholar Federal Reserve
Bank of St. Louis PO Box 442, St Louis Mo. 63166.)
ok

Jane D" Arista

Markets Versus Institutions The Financing of Business

paper Jan Kregal ok

paper Robert Aliber

Discussant Enzo Grilli "Director, Economic Staff of
the World Bank ok

John Wenninger ok

*****After Dinner Speaker*****

SATURDAY NOVEMBER 23

9:30 - Policy Forum

Sherman Maisel ok

Richard Aspinwall ok.

William Janeway Haven't asked

H.P. Minsky ok

Jim Tobin letter to

*****Luncheon Speaker*****

2:30.- The Short Run Prospects.

(Jay and David Levy to Arrange)

Walker Todd Suggest Philip Rhytan on the idea of another RFC. Rhytan will be a principle speaker.

Invitation out to Corrigan

Invite Kaufman.