

FINANCIAL INSTABILITY AND APT BANK SUPERVISION:

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Paper prepared for the 67th annual WEA Conference

Friday July 10, 1992

8:15-10:00 AM

Hyatt Regency, San Fransisco

The trials and tribulations of the past decade

Interest rate mismatch vs non-performing assets: two sources of losses on the carry.

Interest rate devise to "break inflation" mismatch often the result of policy: the use of high short term interest rates as a

Economic vs conventional accounting:

marking to market as the economic calculation,

conventions that only accept running losses and retained earnings as changes in net worth, in equity.

recognizing losses on non performing assets as a change in equity.

The irreconcilability of marking to market and the Basle convention; capital adequacy tests implies shrink the bank when "monetary policy calls for increased lending

The eye on the target: the Keynes quotation constrain speculation and promote the capital development

The missing capital:

Pollocks data on risk assets to measured equity.

Deposit insurance as implicit capital:

Banks, or the deposit insurance fund, has a call on the treasury to make the implicit actual.

Double liability given up as deposit insurance came in

What deposit insurance did was guarantee for all depositors that the bank's equity would always be large enough to make up the difference between deposits and the "liquidation"

value of a banks assets, if the liquidation value is too small.

Regulation and Supervision are the way to protect the government against the call on the Treasury.

The legitimacy of supervision and regulation rests upon the role of government in supplying the hidden capital.

The banker's question: What will you do so that you will be able to pay the sums agreed upon in the financing contract.

"I've never seen a Pro forma I did not like" is the banker's complaint: The banker's task is to pierce the veil of the obliging Pro Forma to obtain a tough minded version of expected costs and revenues. The banker's tools are expected cash flows - the funds that will be available from operations to meet commitments combined with the funds that