

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: The Risk of Economic Crisis

Volume Author/Editor: Martin Feldstein, editor

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-24090-8

Volume URL: <http://www.nber.org/books/feld91-2>

Conference Date: October 17, 1989

Publication Date: January 1991

Chapter Title: Biographies, Indexes

Chapter Author: Martin Feldstein

Chapter URL: <http://www.nber.org/chapters/c6232>

Chapter pages in book: (p. 183 - 198)

---

# Biographies

**Robert J. Barro** is professor of economics at Harvard University and a research associate of the NBER. He has served as editor of the *Journal of Political Economy* and director of the Rochester Center for Economic Research, and is presently on the Domestic Studies Advisory Committee of the Hoover Institution.

**C. Fred Bergsten** is director of the Institute for International Economics. He was assistant secretary of the Treasury for international affairs, 1977–81, and assistant for international economic affairs on the Senior Staff of the National Security Council, 1969–71. He is a member of the Trilateral Commission, the Council on Foreign Relations, and the International Advisory Board of Chemical Bank.

**Ben Bernanke** is professor of economics and public affairs at Princeton University and a research associate of the NBER.

**Ralph C. Bryant** is a senior fellow in economic studies at the Brookings Institution. Before joining Brookings, he was director of the Division of International Finance and associate economist to the Federal Open Market Committee at the Board of Governors of the Federal Reserve System.

**Geoffrey Carliner** is executive director of the National Bureau of Economic Research. Prior to coming to the NBER, he was a senior staff economist at the Council of Economic Advisers working on labor issues and international trade policy.

**Richard N. Cooper** is the Maurits C. Boas Professor of International Economics at Harvard University. He previously served as under-secretary of state for economic affairs, deputy assistant secretary of state for international monetary affairs, and senior staff economist at the Council of Economic Advisers. He is currently deputy chairman of the Federal Reserve Bank of Boston, a director of the Institute for International Economics, and a member of the Trilateral Commission and the Council on Foreign Relations.

**E. Gerald Corrigan** is the president of the Federal Reserve Bank of New York. He is a member of the Trilateral Commission and the Council on Foreign Relations.

**Rudiger Dornbusch** is the Ford International Professor of Economics at the Massachusetts Institute of Technology and a research associate of the NBER.

**Barry Eichengreen** is professor of economics at the University of California at Berkeley, a research associate of the NBER, and research fellow of the Centre for Economic Policy Research. He also is a member of the National Academy of Sciences Committee on the Contributions of the Behavioral and Social Sciences to the Prevention of Nuclear War.

**Douglas W. Elmendorf** is an assistant professor of economics at Harvard University.

**Richard D. Erb** is deputy managing director of the International Monetary Fund. He has held positions at the U.S. Treasury Department, the White House staff, and the Federal Reserve Board. He is a member of the Council on Foreign Relations and a trustee of the Washington International School.

**Martin Feldstein** is the George F. Baker Professor of Economics at Harvard University and president and chief executive officer of the NBER. He served as chairman of the Council of Economic Advisers, 1982–84.

**Jeffrey Frankel** is professor of economics at the University of California, Berkeley, and a research associate of the NBER. He has served as an economist and consultant for the Council of Economic Advisers, the International Monetary Fund, the Federal Reserve Board, the Institute for International Economics, and the World Bank.

**Jacob A. Frenkel** is economic counsellor and director of research at the International Monetary Fund. Prior to assuming his current position in 1987, he was the David Rockefeller Professor of International Economics at the University of Chicago. He is a fellow of the Econometric Society, a research associate of the NBER, a member of the Group of Thirty, and a member of the Advisory Committee for the Institute for International Economics.

**Benjamin M. Friedman** is the William Joseph Maier Professor of Political Economy at Harvard University, and director of the Financial Markets and Monetary Economics Program at the NBER. He is also a director of the Private Export Funding Corporation, a trustee of the Standish Investment Trusts, and a member of the Council on Foreign Relations.

**Robert J. Gordon** is the Stanley G. Harris Professor in the Social Sciences at Northwestern University and a research associate of the NBER. He serves as a member of the Boston Company Economic Advisers Economic Advisory Council, as treasurer of the Econometric Society, and as coorganizer of the NBER's annual International Seminar on Microeconomics.

**Joseph A. Grundfest**, formerly a commissioner of the U.S. Securities and Exchange Commission (1985–90), is currently a member of the faculty of Stanford Law School. An attorney and economist, he has served on the staff of the President's Council of Economic Advisers, practiced law with Wilmer, Cutler and Pickering, and worked as an economist at the Rand Corporation.

**David Hale** is chief economist of Kemper Financial Services in Chicago. He holds a degree in international economic affairs from the Georgetown University School of Foreign Service and an M.Sc. (economics) from the London School of Economics. His articles have appeared in the *Financial Analysis Journal*, the *Financial Times* of London, the *Wall Street Journal*, the *Far Eastern Economic Review*, *Foreign Policy*, and other publications. He is a member of the financial instruments steering committee of the Chicago Mercantile Exchange and the U.S.-Japan Consultative Committee on International Monetary Policy.

**Robert E. Hall** is professor of economics at Stanford University and a senior fellow at the Hoover Institution at Stanford. He is director of the Economic Fluctuations Program at the NBER and a director of the Center for Policy Research of the American Council for Capital Formation.

**William S. Haraf** is director of Policy Analysis for Citicorp. Previously he was a scholar with the American Enterprise Institute, and he served on the staff of the President's Council of Economic Advisers, 1983–85.

**R. Glenn Hubbard** is professor of economics and finance at the Graduate School of Business at Columbia University and a research associate of the NBER. Previously he taught at Northwestern University and Harvard University. He has been a consultant to numerous government agencies.

**Michael Jensen** is the Edsel Bryant Ford Professor of Business Administration at the Harvard Business School. He is the founding editor of the *Journal of Financial Economics* and founder and director of the Managerial Economics Research Center at the University of Rochester Simon School of Business.

**Sidney Jones** is assistant secretary of the Treasury for economic policy. He has served in various government economic policy positions since 1969, and has been a professor at the University of Michigan and associate faculty of the Brookings Institution.

**Edward J. Kane** is the Everett D. Reese Professor of Banking and Monetary Economics at Ohio State University and a research associate of the NBER. He has consulted for the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the American Bankers Association, the Department of Housing and Urban Development, the Federal Reserve System, and the Congressional Budget Office. He is a past president of the American Finance Association, a former Guggenheim Fellow, and a member of the Shadow Financial Regulatory Committee.

**Charles P. Kindleberger** is professor of economics emeritus, Massachusetts Institute of Technology. His recent books bearing on the subject of the conference are *The World in Depression, 1929–1939*, (rev. ed., 1986), and *Manias, Panics and Crashes: A History of Financial Crises* (2nd ed., 1989).

**Mervyn King** is professor of economics at the London School of Economics, where he is also codirector of the LSE Financial Markets Group. He is a research associate of the NBER. Until this year he was an independent board member of the Securities Association and is the first academic to be invited to be a member of the City Capital Markets Committee.

**Paul Krugman** is professor of economics at the Massachusetts Institute of Technology and a research associate of the NBER. He was the international policy economist at the

Council of Economic Advisers in 1982 and 1983 and is a member of the Group of Thirty. He has served as an economic consultant to the International Monetary Fund, the World Bank, and the United Nations.

**Lawrence B. Lindsey** is special assistant to the president for policy development and the executive director of the President's Council on Competitiveness. He is an associate professor of economics on leave from Harvard University and has served as a senior staff economist at the Council of Economic Advisers.

**Robert E. Lucas, Jr.**, is the John Dewey Distinguished Service Professor of Economics at the University of Chicago. He is an associate editor of the *Journal of Monetary Economics*.

**Bennett T. McCallum** is the H. J. Heinz Professor of Economics in the Graduate School of Industrial Administration at Carnegie-Mellon University and a research associate of the NBER. He has been a visiting scholar at the Board of Governors of the Federal Reserve System and the International Monetary Fund, and a consultant at the Federal Reserve Bank of Richmond, Virginia. He currently serves as coeditor of the *American Economic Review*.

**Brian Maddigan** is a senior staff economist at the Council of Economic Advisers. He is on leave from the Board of Governors of the Federal Reserve System.

**N. Gregory Mankiw** is professor of economics at Harvard University and a research associate of the NBER. He has previously served as a staff economist at the Council of Economic Advisers.

**Hyman P. Minsky** is professor of economics at Washington University in St. Louis, and a member of the International Advisory Board and professor at the International Center for the Study of Political Economy, Trieste, Italy.

**Michael Mussa** is the William H. Abbott Professor of International Business at the University of Chicago and a research associate of the NBER. From 1986 to 1988, he was a member of the Council of Economic Advisers. He has been a consultant to the World Bank and the International Monetary Fund.

**William Poole** is the Herbert H. Goldberger Professor of Economics at Brown University and director of the Center for the Study of Financial Markets and Institutions. He was a member of the Council of Economic Advisers from 1982 through 1985. He is a research associate of the NBER and is an adjunct scholar at both the American Enterprise Institute and the Cato Institute.

**Douglas D. Purvis** is professor and head of the department of Economics at Queen's University in Kingston, Canada. He is the author of numerous academic articles in professional journals, is coauthor of a widely used principles of economics textbook, and has written extensively in the public press on economic policy. Previous positions he has held include director of the John Deutsch Institute for the Study of Economic Policy and Clifford Clark Visiting Economist at the Department of Finance, Ottawa.

**Robert D. Reischauer** is the director of the Congressional Budget Office. He has been a member of the Economic Studies Program staff of the Brookings Institution and the senior vice president of the Urban Institute.

**Paul A. Samuelson** is Institute Professor Emeritus at the Massachusetts Institute of Technology. He was awarded the Nobel Memorial Prize in Economic Science in 1970.

**Robert J. Shiller** is the Stanley B. Resor Professor of Economics at the Cowles Foundation, Yale University, and a research associate of the NBER.

**Irvine H. Sprague**, in a long government career, served as special assistant to President Lyndon Johnson in the White House, as deputy director of finance for California Governor Pat Brown, as executive director of the House Policy Committee for Speaker Tip O'Neill, and for eleven and a half years as either chairman or director of the Federal Reserve Insurance Corporation.

**Norman Strunk** was the chief executive officer of the U.S. League of Savings Institutions from 1952 to 1979. He later served as secretary-general and Congress secretary of the International Union of Building Societies and Savings Associations. He has served also as a director of the Federal Home Loan Bank of Chicago.

**Lawrence H. Summers** is vice president of development economics and chief economist of the World Bank. He is currently on leave from his position as the Nathaniel Ropes Professor of Political Economy at Harvard University. He served as domestic policy economist at the Council of Economic Advisors from 1982 to 1983, and as editor of the *Quarterly Journal of Economics* and a number of other journals.

**Richard F. Syron** is president of the Federal Reserve Bank of Boston and a voting member of the Federal Open Market Committee. He has served as president of the Federal Home Loan Bank of Boston, assistant to the chairman of the Federal Reserve Board of Governors, and deputy assistant and acting assistant secretary for economic policy, U.S. Treasury.

**Paul A. Volcker** is chairman of James D. Wolfensohn, Inc., and the former chairman of the Board of Governors of the Federal Reserve System. He has served as the president of the Federal Reserve Bank of New York and as the Undersecretary of the Treasury.

**Alan A. Walters** is a senior fellow at the American Enterprise Institute and a professor of economics at Johns Hopkins University. He has been a consultant to the World Bank and a number of central banks and served as the personal economic adviser to the prime minister of the United Kingdom.

This Page Intentionally Left Blank

---

## Contributors

Robert J. Barro  
Department of Economics  
Littauer Center  
Harvard University  
Cambridge, MA 02138

C. Fred Bergsten  
Director  
Institute for International Economics  
11 DuPont Circle, NW, Suite 805  
Washington, DC 20036

Ben Bernanke  
Woodrow Wilson School of Public and  
International Affairs  
Princeton University  
Princeton, NJ 08544

Ralph C. Bryant  
The Brookings Institution  
1775 Massachusetts Avenue  
Washington, DC 20036

Geoffrey Carliner  
Executive Director  
National Bureau of Economic Research  
1050 Massachusetts Avenue  
Cambridge, MA 02138

Richard N. Cooper  
Center for International Affairs  
Harvard University  
1737 Cambridge Street  
Cambridge, MA 02138

E. Gerald Corrigan  
President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, NY 10045

Rudiger Dornbusch  
Department of Economics  
Massachusetts Institute of Technology  
Room E52-357  
Cambridge, MA 02139

Barry Eichengreen  
Department of Economics  
University of California  
250 Barrows Hall  
Berkeley, California 94720

Douglas W. Elmendorf  
Department of Economics  
Littauer Center  
Harvard University  
Cambridge, MA 02138

Richard D. Erb  
Deputy Managing Director  
International Monetary Fund  
700 19th Street, NW  
Washington, DC 20431

Martin Feldstein  
President and Chief Executive Officer  
National Bureau of Economic Research  
1050 Massachusetts Avenue  
Cambridge, MA 02138



Jeffrey Frankel  
Department of Economics  
Evans Hall  
University of California  
Berkeley, CA 94720

Jacob A. Frenkel  
Economic Counsellor and Director  
Research Department  
International Monetary Fund  
700 19th Street, NW  
Washington, DC 20438

Benjamin M. Friedman  
Department of Economics  
Harvard University  
Littauer Center 127  
Cambridge, MA 02138

Robert J. Gordon  
Department of Economics  
Northwestern University  
2003 Sheridan Road, Room G-174  
Evanston, IL 60208

Joseph A. Grundfest  
Stanford University Law School  
Stanford, CA 94305

David Hale  
First Vice President and Chief  
Economist  
Kemper Financial Services, Inc.  
120 South LaSalle Street  
Chicago, IL 60603

Robert E. Hall  
Hoover Institution  
Stanford University  
Stanford, CA 94305

William S. Haraf  
Director of Policy Analysis  
Citicorp  
1275 Pennsylvania Avenue, NW  
Suite 503  
Washington, DC 20004

R. Glenn Hubbard  
Graduate School of Business  
Columbia University  
Uris Hall 609  
New York, NY 10027

Michael Jensen  
Harvard Business School  
Cotting House, Room 202  
Boston, MA 02163

Sidney Jones  
Assistant Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Edward J. Kane  
Department of Economics  
Ohio State University  
410 Arps Hall  
1945 North High Street  
Columbus, OH 43210

Charles P. Kindleberger  
Brookhaven at Lexington  
Amherst 406  
Lexington, MA 02173

Mervyn King  
London School of Economics  
510 Lionel Robbins Building  
Houghton Street  
London WC2A 2AE, England

Paul Krugman  
Department of Economics  
Massachusetts Institute of Technology  
50 Memorial Drive  
Cambridge, MA 02139

Lawrence B. Lindsey  
Office of Policy Development  
Executive Office of the President  
Old Executive Office Building  
Washington, DC 20500

Robert E. Lucas, Jr.  
Department of Economics  
University of Chicago  
1126 East 59th Street  
Chicago, IL 60637

Bennett T. McCallum  
Graduate School of Industrial  
Administration  
Carnegie-Mellon University  
Pittsburgh, PA 15213

Brian Maddigan  
Council of Economic Advisers  
Old Executive Office Building  
Washington, DC 20500

N. Gregory Mankiw  
National Bureau of Economic Research  
1050 Massachusetts Avenue  
Cambridge, MA 02138

Hyman P. Minsky  
Department of Economics  
Washington University  
St. Louis, MO 63130

Michael Mussa  
Graduate School of Business  
University of Chicago  
1101 East 58th Street  
Chicago, IL 60637

William Poole  
Department of Economics  
Brown University  
Providence, RI 02912

Douglas D. Purvis  
Department of Economics  
Queen's University  
Kingston, Ontario K7L 3N6  
Canada

Robert D. Reischauer  
Director, Congressional Budget Office  
House Annex 2, Room H2-402  
2nd and D Streets, NW  
Washington, DC 20515

Paul A. Samuelson  
Emeritus  
Department of Economics  
Massachusetts Institute of Technology  
Room E52-383C  
Cambridge, MA 02139

Robert J. Shiller  
Cowles Foundation for Research in  
Economics  
Yale University  
Box 2125 Yale Station  
New Haven, CT 06520

Irvine H. Sprague  
962 Millwood Lane  
Great Falls, VA 22066

Norman Strunk  
1468 Parkside Drive  
Park Ridge, IL 60068

Lawrence H. Summers  
The World Bank  
Room S-9035  
1818 H Street, NW  
Washington, DC 20433

Richard F. Syron  
President  
Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, MA 02106

Paul A. Volcker  
Chairman  
James D. Wolfensohn, Inc.  
599 Lexington Avenue, 40th Floor  
New York, NY 10022

Alan A. Walters  
American Enterprise Institute  
1150 17th Street, NW  
Washington, DC 20036

This Page Intentionally Left Blank

---

# Name Index

- Aftalion, A., 95  
Altman, Edward I., 36n13  
Amihud, Y., 68n7  
Asquith, Paul, 36
- Bagehot, Walter, 117, 119, 130–31, 136,  
146–47, 150–51  
Barsky, R., 141  
Becker, Gary S., 77n17  
Bergsten, C. Fred, 115n10, 116n11, 133  
Bernanke, Ben, 23, 29–30, 103  
Brady, Nicholas, 5  
Brumbaugh, R. Dan, Jr., 38, 39n15, 40  
Bryant, Ralph C., 134  
Burton, T., 117
- Campbell, John, 29  
Case, Fred, 57–58  
Caskey, John, 163  
Cline, William R., 113n5  
Cutler, D., 141
- De Long, J. Bradford, 141  
Diamond, Douglas, 147  
Dornbusch, Rudiger, 103, 122n1  
Dybvig, Philip, 147  
Erb, Richard D., 82
- Fazzari, Steven, 163  
Feldstein, Martin, 80, 81, 83, 134  
Feltus, William J., 65n1  
Fisher, Franklin M., 65–66  
Fisher, Irving, 23, 158  
Flood, Robert, Jr., 93, 94
- Fox, Christopher J., 34n9  
Frankel, Jeffrey, 103, 133–34  
French, Kenneth, 34n10  
Friedman, Benjamin, 24, 28n7, 79, 83, 180  
Friedman, Milton, 22, 23, 102  
Froot, Kenneth, 94
- Galbraith, John K., 22n1  
Garber, Peter, 93, 94  
Garcia, G., 143, 151  
General Accounting Office (GAO), 40  
Gennotte, Gerard, 68n9, 74n16  
Gibbon, Edward, 22n2  
Gilson, R., 67n3  
Goldsmith, R., 137  
Goodfriend, Marvin, 148  
Goodhart, C., 146  
Gordon, Robert J., 133, 181  
Grossman, Sanford, ix, 68n9  
Grundfest, Joseph, 82  
Gurel, Eitan, 72n13
- Hale, D., 155  
Hall, Robert E., 82–83, 180, 181  
Hamilton, Mary, 68n8  
Haraf, William S., 79, 134  
Harris, Lawrence E., 72n13  
Henderson, D., 93  
Hertzberg, D., 155  
Hicks, John, 168  
Hoyt, Homer, 130  
Hubbard, R. Glenn, ix  
Humphrey, David, 152

- Jain, P. C., 73n14  
Jensen, Michael C., 32-33  
Jones, Sidney, 81
- Kane, Edward J., 81, 134  
Kaufman, Henry, 24  
Keynes, John M., 159  
Kindleberger, Charles, 1-2, 22n1, 86-87,  
104, 136-40, 140n2, 155, 181  
King, R., 148  
Koo, Richard, 112n3, 155  
Kraakman, R., 67n3  
Kregel, Jan, 159n1  
Krugman, Paul, 93, 94, 96, 113n6, 132-33,  
181
- Laibson, David I., 24n4  
Lamoureux, C., 72n13  
Leland, Hayne, 68n9, 74n16  
Lindsey, Lawrence B., 79-80  
Lorie, James, 68n8
- McCallum, Bennett, 180  
Mankiw, N. Gregory, 23  
Marris, Stephen, 91, 96, 105-6, 110n1,  
115n9  
Mendelson, H., 68n7  
Metz, Tim, 150  
Miller, Marcus, 94  
Minsky, Hyman, 22-24, 87, 95-96, 133-34,  
137, 158-64  
Mussa, Michael, 80, 134, 181
- Nammacher, Scott A., 36n13  
Nurske, Ragnar, 90
- Obstfeld, Maurice, 93, 94
- Plgrave, R. H. I., 119  
Plautz, E., 143, 151
- Poole, William, 81, 180  
Poterba, James, 34n10, 141
- Quint, Michael, 39n16
- Reischauer, Robert, 181  
Roach, Stephen S., 34  
Robinson, Romney, 102
- Salant, S., 93  
Samuelson, Paul A., 82, 181  
Saunders, A., 119  
Schumpeter, Joseph, 23  
Schwartz, Anna J., 22, 23, 102, 137-38  
Schwert, G. William, 22n3  
Shiller, Robert J., 65n1, 80-81, 117, 133  
Sprague, Irving H., 80, 81-82  
Sprague, O. M. W., 22n1  
Sraffa, P., 159n1  
Stewart, J., 155  
Strunk, Norman, 57-58, 82  
Summers, Lawrence, 30, 141, 170, 171,  
179-80, 182  
Summers, V., 141n3  
Syron, Richard F., 82, 134, 181-82
- Taggart, Robert A., Jr., 32  
Temin, Peter, 22, 129
- U.S. League of Savings Institutions, 58
- Viner, Jacob, 159  
Volcker, Paul A., 80, 152
- Walters, Alan, 180-81  
Wansley, J., 72n13  
Weller, Paul, 94  
Wilson, R. B., 67n6

---

# Subject Index

- Asset markets: diversification in, 17–18; likelihood of price bubbles in, 140–41, 156; perception of liquidity in, 140–41
- Asset pricing, 159–60
- Bank for International Settlements (BIS), 14–16, 131
- Banking system: international intervention by (1987), 112; necessary protection of, 178–79; risk factors in, 82. *See also* Central banks; Free banking system
- Banking system, U.S.: competition for, 14–16; conditions for separation and reform of (1932–33), 23; crises preceding economic downturns, 22; impact of financial innovation on, 13–14; impact of inflation on, 13; lending practices of, 38–40; regulatory pressure on, 14–16; risk of commercial bank failures in, 12; role in LDC debt crisis of, 3–6, 13
- Bankruptcy, business, 35–38, 41
- Budget deficit, U.S., 8
- Capital requirements, 14–16, 81, 143
- Central banks: as lenders of last resort, 130–32, 146–48; role in financial disruption, 52; as suppliers of liquidity, 107. *See also* Federal Reserve System; Lender of last resort
- Clearing systems, 47
- Contagion crises, 88–89, 124, 132; definition and origin of, 100–101
- Cooperation, international policy, 125
- Coordination, international policy, 17, 125–27
- Corporate sector: comparison of U.S. and foreign structures in, 34–35; debt for equity substitution in, 19, 24–25, 41; effect of borrowing patterns of, 24–34
- Crashes. *See* Stock market crash; Stock market crashette
- Currency crisis, 88–89, 132; France, 89–91; Latin American debt crisis as, 98–100, 121–22; macroeconomic effects of, 96–98; origin in irrational markets of, 94–96; origin in rational markets of, 92–94; speculative attack concept in, 93–94. *See also* Hard-landing scenario; Sustainability concept
- Debt: aggregate, 30–32, 41; corporate, 19, 24–34, 41; federal government, 31–32
- Debt crisis, LDC, 3–6, 13
- Debt for equity transactions, 19, 24–25, 32–34, 40–41. *See also* Strip financing; Swaps
- Defaults and failures, business, 35–38, 41
- Deposit insurance: in deregulated environment, 60–62; moral hazard in system of, 51–52, 81–82; reform of, 171; role of private and government, 11–12; for thrift institutions, 54, 81–82
- Depository Institutions Act (1982), 40, 55
- Deregulation: effect on thrift institutions of, 12, 55–57, 58–60; as source of international financial crises, 122–23
- Economic crises: potential, 1–18; relation to financial crises of, 161–63
- Efficient market hypothesis (EMH), 68

- EMH. *See* Efficient market hypothesis
- Exchange rates: management of, 7–8, 17; real and nominal, 124. *See also* Foreign exchange markets
- Federal Deposit Insurance Corporation (FDIC): diminished independence of, 56; losses of, 41–42; role of, 14–17, 60, 82
- Federal Home Loan Bank Board (FHLBB), 59–60, 81–82
- Federal Reserve System: establishment of (1914), 22–23; inflation strategy of (1979), 4; intervention by, 17; as lender of last resort, 42, 52, 146; as supplier of liquidity, 7–8, 52, 107, 145–46. *See also* Lender of last resort
- Federal Savings and Loan Insurance Corporation (FSLIC), 9–11, 41
- Financial crises: defined, 44; effect of 1929, 91–92; impact on economic activity of, 22–23, 40–41; ingredients for, 117; international transmission of, 86, 101–5; LDC financial deregulation as source of, 122–23; potential sources of, 2–18; reasons for likelihood of, 19–21; relation to economic crises of, 161–63; risks of, 45; scenario for a 1991 crisis, 138–48, 153–55; silver crisis (1980), 47, 143, 177; transmission of, 101–5, 117–21. *See also* Contagion crises; Currency crisis; Lender of last resort
- Financial crises, international: contagion mechanisms in, 119–21; protectionism as transmission mechanism for, 124; typology of, 87–89. *See also* Contagion crises; Currency crisis; Hard-landing scenario
- Financial disruptions: compared to financial crises, 44–45; factors contributing to, 45–48; myths about, 48–52
- Financial innovation: bandwagon effect with, 46; impact on banking system of, 13–14, 16; inflation as initiator of, 16; methods to lower risk exposure, 33; short-lived nature of, 46
- Financial instability hypothesis (Minsky), 23–24, 95–96, 101, 158–64
- Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), 1989, 52, 55–56
- Financial markets: effect of overcrowding in, 47; post-October 19, 1987, 50–51
- Financial sector risk, 16–17
- Foreign exchange markets, 95
- Free banking system, 146–48
- Garn–St Germain Act (1982), 40, 55, 58
- Glass-Steagall Act, 23, 61
- Gramm-Rudman Act limits, 55–56, 110
- Hard-landing scenario: and currency crises, 91; factors creating, 111–12; lack of, 105–7; prevention of, 115–16; risk of, 109–11, 113–15
- Home Loan Bank Act (1932), 82
- Household sector, borrowing patterns of, 27–29, 31–32, 41
- Inflation: effect on debt crisis of, 6; impact on banking system of, 13; as initiator of financial innovation, 16; as primary cause of thrift institution failures, 9, 12; as source of increased financial sector risk, 17
- Information: effect on triple witching hours of, 76–77; importance in securities markets of, 67–69, 76; requirement for more, 77. *See also* Efficient market hypothesis
- Interest rate caps, 33
- Junk bonds: effect on business default and failure, 36–38; statutory limits for holding, 40; thrift institution investment in, 10
- LDCs. *See* Less-developed countries
- Lender of last resort: alternative to central bank as, 118–19; classical perspective of, 150–53; FDIC and FSLIC as, 178; Federal Reserve perspective of, 151–53; free banking perspective of, 146–48; international, 130–32, 155; moral hazard issue of, 152–53; Reconstruction Finance Corporation as, 131
- Less-developed countries (LDCs) debt crisis, 3–6
- Liquidity: illusion of, 46; information about demand for, 67–71, 77–78; in stock market crashettes, 72–76; suppliers of, 52, 118–19
- Liquidity-currency crisis, 155–56
- Louvre Accord, 112
- Market volatility. *See* Price volatility
- Mini-crash. *See* Stock market crashette

- Moral hazard: in deposit insurance system, 51–52; in federal safety net, 152–53; of lender of last resort, 130–32, 152–53
- Office of Thrift Supervision, 11, 60
- Oil price shock: in 1973, 3; in 1980s, 12, 13
- Ponzi finance, 160–61
- Portfolio insurance, 101, 140
- Price bubbles, 140–41, 143
- Price volatility: effect of positive feedback behavior on, 140; explanations for, 63–66; with information failure, 67–69; in international arena, 85–86; proposals to halt unusual, 77–78; in triple witching hours, 76–77. *See also* Single-price auction; Stock market crashette
- Program trading, 8. *See also* Trigger points
- Real estate industry, 10–11, 13
- Reconstruction Finance Corporation, 131
- Regulation: arbitrage across borders for, 134; impact on banking system, 14–16; impact on thrift institutions, 58–60, 81; supervisory role, 47, 50–52
- Regulation Q, 58, 80
- Resolution Trust Corporation (RTC): borrowing limits and vacillation of, 56; funding and operation of, 61, 131; role of, 9, 11, 17
- Risk: diversification of, 17–18; effect of excessive, 33, 47
- Safety net, federal, 152–53
- Savings and loan institutions. *See* Thrift institutions
- Securities industry: condition for separation and reform of (1932–33), 23, 61
- Securities markets: information requirement for, 67–69
- Single-price auction, 78
- Stock market: cautionary factors in explaining, 63–66; differentiation in crashes of, 64; effect of circuit breakers on, 64
- Stock market crash: bandwagon effect in, 101; defined, 69; explanation for, 66–76; international, 107–8; of 1929, 91, 102, 107, 129–30; of 19 October 1987, 6–8, 17, 20, 44, 107, 129, 143; 13 October 1989, 128
- Stock market crashette: defined, 69; effect of, 72–73; origin of, 71–72, 74
- Strip financing, 33
- Sustainability concept, 96, 125
- Swaps, 33, 131
- Thrift institutions: causes of failures in, 9–12; effect of disintermediation on, 80; junk bond holdings of, 40; legislative reform of, 60–61; minimum tangible net worth requirement of, 60–61; relaxation of regulatory standards for, 17; rescue attempts for, 55–57
- Trigger points, 95–96, 101
- Triple witching hours, 76
- Uncertainty, 74, 142–43



The stunning collapse of the thrift industry, the major stock slump of 1987, rising corporate debt, wild fluctuations of currency exchange rates, and a rash of defaults on developing country debts have revived fading memories of the Great Depression and fueled fears of an impending economic crisis. Under what conditions are financial markets vulnerable to disruption and what economic consequences ensue when these markets break down?

In this accessible and thought-provoking volume, Benjamin M. Friedman investigates the origins of financial crises in domestic capital markets, Paul Krugman examines the international origins and transmission of financial and economic crises, and Lawrence H. Summers explores the transition from financial crisis to economic collapse. In the introductory essay, Martin Feldstein reviews the major financial problems of the 1980s and discusses lessons to be learned from this experience. The book also contains provocative observations by senior academics and others who have played leading roles in business and government.



MARTIN FELDSTEIN is the George F. Baker Professor of Economics at Harvard University, and is president and chief executive officer of the National Bureau of Economic Research. He is the editor of numerous books, including *The United States in the World Economy* (1988), *International Economic Cooperation* (1988), and *The American Economy in Transition* (1980), all published by the University of Chicago Press.

*An NBER Conference Report*

The University of Chicago Press

ISBN 0-226-24091-6



9 780226 240916

90000