

DOCUMENTS OF THE GENERAL FACULTY

**REPORT OF THE MEMORIAL RESOLUTION COMMITTEE FOR
BRUCE D. SMITH**

The special committee of the General Faculty to prepare a memorial resolution for Bruce D. Smith, professor, economics, has filed with the secretary of the General Faculty the following report.

Sue Alexander Greninger, Secretary
The General Faculty

**IN MEMORIAM
BRUCE D. SMITH**

Bruce David Smith, a world-renowned economist and dedicated teacher, died in Rochester, Minnesota on July 9, 2002, at the age of 47, after a long battle with colon cancer. Bruce was well-known for his pioneering research on financial intermediation and its role in monetary theory and growth. Especially noteworthy were his contributions, by himself and with numerous co-authors, on the importance of financial intermediation to the growth and stability of developing countries.

Bruce was born on September 21, 1954, and grew up in St. Paul, Minnesota, the oldest of five. His parents, Sam and Marian Smith, were role models in their devotion to family and the importance they placed on education. Sam, a chemist at 3M, loved the research process, and Bruce often referred to him as an inspiration. In high school, Bruce was a champion debater, and although he briefly considered law school, by the time he graduated with a B.A. in economics from the University of Minnesota in 1977, he was committed to graduate study in economics. Bruce obtained his Ph.D. in economics from the Massachusetts Institute of Technology in 1981, where he was a student of Stanley Fischer. In 1987, Bruce married Valerie R. Bencivenga, also an academic economist, and they were happily married until separated by Bruce's death.

Bruce's career began as an assistant professor at Boston College (1981-82). From there, he moved to the research department at the Federal Reserve Bank of Minneapolis (1982-86). It was there, among colleagues who included Thomas Sargent, Edward Prescott, Neil Wallace, John Boyd, and Warren Weber, that Bruce's life-long research interests in monetary history, monetary theory, and financial intermediation blossomed. It was also there, in what was at the time an iconoclastic research environment, that Bruce's distinctive style of economic modeling began to take shape. Bruce visited Carnegie-Mellon in 1985-86 and accepted an assistant professorship there beginning in 1986. However, early in 1986, Bruce met Valerie, who was an assistant professor at the University of California at Santa Barbara; as a consequence, he visited UC Santa Barbara in 1986-87, and then both Bruce and Valerie moved to the University of Western Ontario, where Bruce was an associate professor from 1987-1990. In this period, Bruce met Costas Azariadis when Costas visited from the University of Pennsylvania; Bruce and he began a fruitful collaboration and friendship that lasted until Bruce's death. In 1990, Bruce moved to Cornell University, where he was promoted to full professor in 1994. At Cornell, Bruce formed a close professional relationship and friendship with Karl Shell, with whom he shared an interest in monetary theory and growth theory. In 1996, Bruce moved to The University of Texas at Austin as the Fred Hofheinz Regent's Professor of Economics, a chair he held until his death in 2002.

Bruce's scholarly research consists of nearly one hundred published papers. These included widely-cited papers about monetary history, the causes and consequences of banking panics, the impact of financial market development on per-capita income and growth, the impact of inflation on financial market development, the macroeconomic effects of various types of credit market imperfections, and the optimal conduct of monetary and exchange rate policy.

Five aspects of Bruce's body of research stand out. One is Bruce's passionate interest in the importance of financial intermediation in economic growth and stability in the developing world and formulating optimal monetary policy. Bruce's last singly-authored paper, "Taking Intermediation Seriously,"¹ argues that models which do not explicitly include financial intermediation can be misleading as a guide to monetary policy. A second is his distinctive style; Bruce's models were often highly complex, but they were structured to capture characteristics of the environment that are crucial to developing intuition about the results and essential to a discussion of policy. This leads to the third aspect: an emphasis on policy. The large majority of Bruce's papers deal with economic policy, including such issues as whether stock market transactions should be taxed in developing countries, whether it can ever benefit a developing country to cut itself off from capital flows, under what circumstances "dollarization" makes a country better off, what determines whether the "Friedman rule" is optimal monetary policy, whether "moral hazard" is worse with a commercial banking system or with universal banking, and what inflation rate triggers an adverse effect on financial market development. Fourth is Bruce's love of economic history. Bruce viewed economic history as a laboratory for understanding aspects of the theory of financial intermediation and monetary theory that he argued remain relevant for policy in the contemporary world. Finally, one cannot comment on Bruce's body of research without mentioning the large number of researchers with whom he collaborated. Bruce loved working with others. He usually faxed his work-in-progress to his co-authors, who tell stories about long faxes dense with algebra rolling off the fax machine beginning the day after he started a project.

The Federal Reserve Bank of Minneapolis published the complete list of Bruce's published research as of the date of his death,² available at the following Web site: <http://woodrow.mpls.frb.fed.us/research/qr/qr2644.pdf>. Subsequently, at least a half-dozen more projects that were in progress when Bruce died were completed and published by Bruce's co-authors.

Throughout his career, Bruce served the public through his involvement with the Federal Reserve system. Over the years, he was a visiting scholar at the Federal Reserve Banks of Minneapolis, Cleveland, Kansas City, Atlanta, St. Louis, and New York. At the Federal Reserve Bank of Cleveland, Bruce helped formulate the goals of a long-term project studying the theory and practice of central banking. Bruce also completed several research projects for the World Bank, on diverse topics including the effects of stock market development on growth in developing countries, the effects of deposit insurance in developing countries, and the effect of differences in market structure (competition versus monopoly power) on the stability of the banking system. In addition, he gave lectures to staff at the International Monetary Fund and the Central Intelligence Agency.

Bruce served on the editorial boards of several journals, including the *Journal of Economic Theory* (associate editor, 1993-2002), *Economic Theory* (editorial board, 1992-96 and co-editor, 1996-2002), *Journal of Financial Intermediation* (associate editor, 1995-2002), *Macroeconomic Dynamics* (associate editor, 1996-2002), and the *Journal of Economic Growth* (associate editor, 1994-2000).

Bruce was particularly well-known and beloved for his attentive devotion to his numerous Ph.D. students, with many of them going on to take faculty positions at research universities. One of his students, Gaetano Antinolfi (who as of the date of this memorial is an associate professor of economics at Washington University) writes the following in a memorial to Bruce published in *Macroeconomic Dynamics*:

Bruce was, with Karl Shell, the co-chair of my dissertation committee at Cornell. Therefore, I was lucky enough to witness first-hand and benefit from Bruce's famous devotion to his students and their work. In fact, I would like to broaden this view, and emphasize that more generally Bruce was naturally devoted to the young... [S]o many at the beginning of their career benefited crucially from Bruce's input. His own satisfaction was in being able to help those who were eager, younger, and less experienced than he was ... Three years ago, witnessing the amount of time and energy that Bruce dedicated to us, I felt embarrassment,

¹ Bruce D. Smith, "Taking Intermediation Seriously," *Journal of Money, Credit, and Banking*, v.35 (6), part 2 (December, 2003), pp.1319-1357.

² "The published work of Bruce D. Smith," *Federal Reserve Bank of Minneapolis Quarterly Review*, v.26 (February, 2002).

and I told him so. Bruce replied to me that when he was a young Ph.D. . . . , he had been lucky in meeting senior members of the profession who challenged him, coached him, and became his mentors and then his friends. He said to me, "Please don't worry, I am just giving back what I received and what I was taught to do."

Bruce was by nature positive and encouraging. He had a great attitude, and he always thought he had been lucky. I saw him for the last time in Austin at the beginning of June 2002. Bruce was not feeling well; medical complications and treatments that he mentioned dismissively must have been taking their toll. In spite of this, he wanted to meet with Todd Keister and me to discuss a project the two of us were working on. Later on, I received an email in which he encouraged us to pursue our project, and apologized once more because he had not been well enough to socialize outside work. This was Bruce.³

This memorial resolution was prepared by a special committee consisting of Professors P. Dean Corbae (chair) and Valerie R. Bencivenga.

Distributed to the dean of the College of Liberal Arts, the executive vice president and provost, and the president on September 13, 2004. Copies are available on request from the Office of the General Faculty, FAC 22, F9500. This resolution is posted under "Memorials" at: <http://www.utexas.edu/faculty/council/>.

³ Gaetano Antinolfi, "In Memory of Bruce Smith," *Macroeconomic Dynamics*, v.7, iss. 1 (Feb. 2003), pp. 1-2.