# Market Challenges to Democracy: The Political Economy of Hyman Minsky

Robert Emmanuel Kirsch

Dissertation submitted to the faculty of the Virginia Polytechnic Institute and State University in partial fulfillment of the requirements for the degree of

Doctor of Philosophy

In

Social, Political, Ethical and Cultural Thought

Timothy W. Luke, Chair
Chad D. Lavin
Robert P. Stephens
Daniel Breslau

July 11, 2012
Blacksburg, VA

Keywords: Minsky, political economy, democracy, crisis, everyday life

Market Challenges to Democracy: The Political Economy of Hyman P. Minsky

Robert Emmanuel Kirsch

ABSTRACT

This dissertation seeks to reengage the field of political economy to establish a political response to financial crisis, as well as the resulting social crisis of everyday life, using the political economy of Hyman P. Minsky. As an academic field, political economy is in a strange kind of limbo. The separation of politics and economics is easy enough to see, and even within economics, there is another cleavage between economics proper and the history of economics. This yields some very strange conjectures about what it means to be an "economist," and how things can be a matter for either economic "policy" or "political economy" as if these categories were all jumbled up in a grab bag of available methodologies. This dissertation seeks to carve out some intellectual terrain in what can be called political economy by engaging in an interdisciplinary way, inspired by Minsky, in order to offer a cogent political analysis of financial crises. Minsky gives five possible definitions for political economy: the discipline of Economics, a code name for Marxism, rational choice theory of profit maximization, the management of macroeconomic policy, and finally an interdisciplinary view of political economy that works in concert with other social sciences and humanities in order to identify and remedy social ills such as unemployment and poverty. The reading of Minsky in this dissertation is thus in an explicitly political way in order to bridge the gap between various kinds of economics and the various social sciences. By analyzing and critiquing each of these possible definitions of political economy, it becomes clear that a properly social definition of political economy is the final, interdisciplinary one. This dissertation argues that Minsky had a "preanalytic vision" of the kind of society he wished his political economy to yield, and is a first step in fleshing out a political program for that vision.

*To Tim, with gratitude*

**Acknowledgements**

The author wishes to thank several people. First and foremost, my adviser and chair, Timothy W. Luke for years of advising, willingness to read multiple drafts, and keeping me on pace to finish this project. Many thanks to my other committee members as well, whose impressive commitment to interdisciplinary education made for an enriching process, and who never made me feel like my project was a burden. The existence of the ASPECT program at Virginia Tech is proof of a group of committed faculty from across disciplines, programs and colleges that encourages truly interdisciplinary graduate work. They are a remarkable group. It is a remarkable program.

A thank you to the political animals of my life, particularly the ursine ones.

Finally, a thank you to my family for their continual and unwavering support.

Table of Contents

**List of Figures**

## CHAPTER ONE: Hyman Minsky's Contribution to Political Economy

As an academic field, political economy is in a strange kind of limbo. The separation of politics and economics is easy enough to see, even though few would say the two are ever completely analytically distinct. Even within the academic discipline of economics, there is another cleavage between economics proper and the history of economics. This yields some very strange conjectures about what it means to be an "economist," let alone a political economist, and how things can be a matter for either economic "policy" or "political economy" as if these categories were all jumbled up in a grab bag of available methodologies to diagnose a situation. This project seeks to carve out some intellectual terrain in what can be called political economy by engaging in an interdisciplinary way, inspired by the work of Hyman P. Minsky, in order to offer a cogent political analysis of financial crises. In an archived handwritten note, he offers the following list of possibilities for political economy:

> Meaning of the term "political economy:"
>
> a) Economics
> b) A code name for Marxism
> c) The analysis of operators in the economy as "profit maximizers"
> d) The economics of policy: i.e. analysis of central banking, fiscal policy
> e) A view of economics that believes economics cannot be "divorced" from the other social sciences and even the humanities.[1]

To do so, this dissertation will use this set of possible definitions from economist Hyman Minsky, but in a way that uses its work to bridge the gap between economics and other social sciences. After a thorough investigation of all the possibilities on this list of definitions it will become apparent that Minsky himself would argue for an interdisciplinary political economy. In

[1] Hyman P. Minsky, "The Political Economy of Keynesian Theory" (Handwritten. Archival, n.d.).

such a spirit, this dissertation will conclude with a plea to choose option "e." It is important to note that these definitions provided by Minsky were not elaborated upon, and so in my adoption of them, am seeking to build a progressively interdisciplinary vision of the social possibilities of political economy.

This first chapter will establish an intellectually bounded field that I will call "political economy" into which I will insert Minsky's analysis, Minsky's intellectual heritage and legacy in his analysis of financial capitalism, lay out the Financial Instability Hypothesis, and flesh out some initial boundaries of possible limits of the analysis. This will be done in an attempt to cordon off an explicit social space for Minsky's political economy while establishing the traditions, specifically Institutionalism, that informed Minsky's vision. This endeavor not only sets the parameters for exploring the definitions of political economy that Minsky listed, but is worthwhile in its own right. Minsky was keenly aware that he was standing on the shoulders of giants – in this case Keynes and Schumpeter – thus making a lineage of thought an important part of the analysis. Giving a more complete vision of Minsky's political economy is also a prerequisite to protect against the oversimplification or reductionism of limiting him to the Financial Instability Hypothesis or any other specific aspect. This chapter will try to give a more complete treatment of the whole of his academic corpus and lineage.

Chapter two delves into a discussion of the academic discipline of economics. The thrust of the analysis is to dispute the contention that the discipline does what it explicitly seeks to do, which is to make sense of how flows of capital go to various actors in an economy. There are a number of arenas in which this chapter makes such a contention. In the first instance, theoretically, the discipline, in its attempt to mirror the positivism of 19th century physics, lacks a connection to the world as found, instead offering a too-abstracted theory that is not beholden to, or possibly even antagonistic toward, the observed flows of capital. Secondly and related, there are myriad economic laws that are observably/empirically false. Instead of reimagining a different theory to explain such occurrences, all too often the discipline becomes focused instead on trying to find where the world went wrong, confounding the theory/model/prediction. Minsky was an avowed critic of the academic discipline of economics, which is built upon the analysis of this chapter, that instability is an inescapable and unknowable to a comfortable level of precision which economics aspires to.

Chapter three then moves from the critique of academic economics and into the analysis of heterodox political economies coming from Minsky. Chapter three deals with Marxian political economy. Minsky was somewhat unusual as an academic economist in that he was comfortable in the Marxian tradition, rejecting the political program but nevertheless applying certain tenets as needed. This chapter will also argue that this was not a mistake or an aberrant excursion to the radical corners of political economy. Minsky situated his analysis explicitly on the shoulders of two opposed thinkers: Joseph Schumpeter and John Maynard Keynes. Minsky was almost irritated to the degree Schumpeter focused on Marx, while Keynes maintained a deliberate blind spot to Marxian analysis. I argue that much of what Keynes wrote also fits in the Marxian tradition, thus to see the evolution of Minskian political economy, one must first go through an exposition of how Marxian political economy relates to both Keynesian and Schumpeterian analysis.

Chapter four focuses on Minskian public policy, both its possibilities and its discontents. Minsky's political economy, being explicitly social and dedicated to mitigating the social impacts of financial instability, formulates policy prescriptions to attempt to buttress the institutional framework of the state to meet these challenges. This is a logical extension of the argument made in this chapter, that the state is the only social actor large enough to reestablish stability in the financial sector. So too is it the only social institution that can seriously pursue policies such as full employment. This opens up a discussion about the relationship between the state and the possibilities of monetary policy. While Minsky himself does not venture too far into this territory, I pull in some economists in Minsky's tradition to challenge some commonsense orthodoxy about what the state may accomplish with money, public debts, and the endogenous creation of money. Doing so has the added benefit of being the entry point to what makes this dissertation a political reading of Minsky. Policymakers, especially those who are not invited to actually make policy would do well to pay attention to political concepts such as sovereignty, the antagonism of remaking social relations, and the limits of market society. Minsky did not do this in his own analysis, but such a political reading would be a valuable political buttressing for a defense of Minskian political economy. Such a reading of policy also must realize that policy does not exist in a vacuum, and that degraded social relations can only be fixed by the renegotiation of those social relations, as the chapter ends with a plea for such a Polanyian understanding of the state as an institution that might protect society against the irresistible encroachment of the market.

Chapter five therefore steps into the expansive category of the social, by making the case that a Minskian political economy is an interdisciplinary one, as indicated, and can be used to support a strong political/social/cultural critique of the most recent stage of financial capitalism, which this chapter establishes through Minsky is money manager capitalism. This chapter will also argue that what makes the economy an interdisciplinary phenomenon is the realm in which political economy finds its import: the everyday lives of citizens. This again finds its reasoning in Minsky's work: his evaluation of financial capitalism was based entirely on whether capitalism was able to “deliver the goods.” Involuntary unemployment, poverty and homelessness were evidence to Minsky that capitalism at best was not operating at optimal efficiency, and in cases of depression, is a failed social order.

Chapter six concludes the analysis by synthesizing the shortcomings of Minsky’s analysis in the preceding chapters, to argue that while he did not have a complete social program, which is an impossible task, he did have a “preanalytic vision” that lays the foundations for analyses like this dissertation to strengthen and reinterpret Minsk’s analysis while at the same time not reducing Minsky to a toothless neoclassical synthesis.

**1.0 Political Economy**

The intellectual terrain of political economy is vast, which alone would be a justification of limiting this dissertation to the non-exhaustive and non-exclusive categories offered by Minsky. A deeper justification is found, however, in what Minsky’s political economy was attempting to do. To that end, it is worth a bit of time discussing what variants of political economy this dissertation will not use. Political economy is not, for the purposes of this dissertation, comparative development strategies for developing nations. Minsky trained his analysis to the capital development of advanced industrial democracies because there was more room to consider social provisioning. Therefore, to explore this intellectual terrain, some conjectures of Minskian analysis must be stipulated. First is that the realm of political economy is one in which there exists a surplus – that advanced industrial democracies produce more than is necessary to reproduce itself - and the question that the field seeks to answer is both the production and distribution of that surplus. This is not a question of econometrics, formulae, or the tired micro/macro debate in the field of economics, but rather an understanding that properly takes note of the social character of economic thought. This is an argument worth making, since there are those who still hold out for such a distinction:

> The surplus principle is associated with political economy, not with economics. Political economy deals with the functioning of the socioeconomic *system*; economics is concerned with the *behavior* of producers and consumers, which may be coordinated by the market or by the principle of effective demand according to whether a neoclassical or a Keynesian standpoint is taken. Hence the surplus principle is essentially a *social* principle. [Emphasis original][2]

While perhaps this distinction makes sense for how mathematical economists perceive themselves, the distinction falls apart on its own terms. People can still behave in a system. Market principles are enacted and performed in social systems. In other words, the surplus approach to political economy reinforces the idea that economics, as much as politics, is a "social science."[3] The surplus that one analyzes in political economy has a social character as well. All this is to say that even though strict "economists" may deny the social consequences of actually lived economic theory does not make it any less of an important focus.

Another conjecture is the constitution of the surplus. If political economy, as a field, is devoted to this surplus approach, then it is worth taking the time to ask of what the surplus is comprised. Marx notes in his general observation at the beginning of part I of *Theories of Surplus Value*: "All economists share the error of examining surplus-value, not as such, in its pure form, but in the particular forms of profit and rent."[4] I bring up the difference between simple profit and surplus value as such, because as I will show in the following analysis, there is

---

[2] Bortis Heinrich, "Notes on the Surplus Approach in Political Economy," in *Capital Controversy, Post Keynesian Economics and the History of Economic Thought: Essays in Honour of Geoff Harcourt*, vol. 1 (Routledge, 1996), 16.

[3] Gerald F. Davis, *Managed by the Markets: How Finance Re-Shaped America* (Oxford University Press, USA, 2009), 57.

[4] Karl Marx, *Theories of Surplus Value - Part One* (Progress Publishers, 1978), 40.

no guarantee that the surplus produced will be monetary profit.[5] In fact, it makes just as much sense as to say that during a fiscal crisis, there is an abundant surplus. The constitution of the surplus though, is debt. The questions of who produced the debt and to whom it is distributed and consumed remain. This understanding of surplus ensures that we do not absolve political economy of its social responsibility because there was no monetary surplus produced (in much the same way that many economists absolve themselves from social responsibility because crises are "abnormal"). There is still a place for political economy even if we are unable to maintain three percent compound growth forever.

Of course, the attempt by departments of economics to dissociate themselves from social considerations is not some nefarious plot where everybody participates in some grand obfuscation. There is a place for complex mathematics, and policy formulation certainly matters. It is folly, however, to assume that the discipline can be reduced to any of these particular aspects. Moreover, a number of economists have tried to address the social relations that result in the application of economic theory. Similarly, there is an understanding that certain kinds of economic structures produce certain kinds of desirable (or undesirable) social results. One economist who was cognizant of the social relations that emerge from economic formations is Hyman Minsky, and it is through the lens of his analysis that I will formulate and supplement my own political and cultural theory. The road to a cogent critique of the current mode of capitalist accumulation, however, does not emerge from nowhere. So before offering a vision for political economy, I must first establish the theoretical traditions that are responsible for its current emergence, as well as Hyman Minsky's professional and intellectual legacy as it relates to the field of economics generally. As this analysis unfolds, it will become clear that Minsky's project,

---

[5] The broader context of surplus as such can open large areas of social life. Mike Davis' 2007 *Planet of Slums*, for instance, grimly assesses whether the world is producing a "surplus humanity." Georges Bataille traces the entirety of the social construction of humanity to a surplus of human energy and its expenditure.

broadly conceived, was an interdisciplinary effort, even though he was not overtly arguing for this, or had the proper theoretical tools to deploy such an analysis. At the very least, however, we must recognize that Minsky saw the value of political economy in order to diagnose the world as he found it, and try to explain how certain kinds of social relations created certain kinds of modes of accumulation. His view of what the economy should do for citizens of advanced industrial democracies was social, and so an interdisciplinary use of his analysis can push political economy toward those Minskian ends.

### 1.1 Hyman Minsky's Political Economy of Instability: The Financial Instability Hypothesis

> …Relevant theory is not a compendium of propositions derived from axioms assumed to be universally true: economic theory is not a subdivision of mathematics. Relevant theory is the result of the exercise of imagination and logical powers on observations that are due to experience: it yields propositions about the operation of an actual economy.[6]

Minsky implores us begin any economic analysis in the world as we find it, and so let us start with the current crisis of the first decade of the aughts. The final years of the 2000s will be a period unmistakably remembered as a time of great financial instability and turbulence. To merely recognize financial instability, however, is not to necessarily offer the proper theoretical insights into the crisis. To do that, one must offer a critique not only of those historical facts that cause instability, but instability itself. The tendency in the current context is to treat the triggers of financial instability as exogenous "shocks" to the financial order – often referred to as "black swan events."[7] Statistician Nassim Taleb coined the term in a 2007 book by the same name.[8] While his only claim was that history can be viewed through a series of incredibly important

---

[6] Hyman P. Minsky, "Uncertainty and the Institutional Structure of Capitalist Economies," *Journal of Economic Issues* 30, no. 2 (1996): 358.

[7] A Lexis-Nexis Academic search for "Black Swan Event" after 2006 returned over three thousand hits from global news sources. The best by far was October 27th, 2008 in London's *Evening Standard* – "The Black Swan as an Investment Strategy." One would certainly hope!

[8] Nassim Nicholas Taleb, *The Black Swan*, 1st ed. (Random House, 2007).

moments that were just as equally unlikely, his term has, perhaps unfairly, been appropriated by the world of finance to the idea to explain the collapse of the financial world in 2008. The reaction to financial instability seems to be to find the ghost in the machine – to fix the one blip that caused everything to go haywire. Such focus on aberrations only serves to absolve blame of the participants and institutions in the financial world, and dissuade any serious systematic attempt to study just how the current mode of financial capital works.

Such an explanation – that an incredibly unlikely, discrete, exogenous event triggered the collapse is an attempt to sidestep the far more penetrating critique into the nature of financial crisis, modes of production, and indeed the very idea of capitalism itself. The narrative goes that the best our society can hope to do is put safeguards against such exogenous impacts. The goal of this research project is not to find the black swan, or the one pathogen that caused a rippling domino effect. The argument is that such a search would be a waste of time. Instead, it will pose the question, "What if all the swans are black?" By phrasing the question thusly, the theoretical terrain of investigation is moved into the nature of instability itself, and compels us to look at the world as we find it, and not through the lens of textbook equations and demand curves. With such an understanding, the argument can lead to Minsky, who posited that instability is endemic to financial capitalism, and can be observed at any point in the arc of accumulation or deflation. That is to say, instability is not only present during times of economic distress, but it is there during euphoric booms of accumulation, mild recoveries, and hiccup recessions. If this is true, then looking for the exogenous events does not make any sense, and a far more helpful analysis is one that looks for the endogeneity of instability.

The framework used to make this case will be drawn primarily from Hyman Minsky and his "Financial Instability Hypothesis." While it is often referred to in popular usage as the anti-

"Efficient Market Hypothesis," or reduced to the "Minsky Moment," the point at which the government as the lender/spender of last resort must step in to recapitalize financial institutions so they can make their payment commitments, I will flesh out the full hypothesis and attempt to add a political and cultural analysis to go along with the economic. Minsky himself was prone to occasionally taking stabs at social theorizing, but it was often not well formulated. In the framework of the Financial Instability Hypothesis, however, there is a space that is opened for critical theory. This chapter will sketch out the evolution of financial capitalism, what Minsky's analysis contributes to its understanding, reclaiming the Minsky tradition from vulgarization, his attempts at social theory, and points of departure that will set the stage for my appropriation of his possibilities of political economy. While it may seem like a fairly obvious contention that financial capitalism is inherently unstable, it is worth spending some time tracing the evolution of financial capitalism before using the hypothesis in the current context.

*"Financial" Capitalism*

The phrase "financial capitalism" emerged with Rudolf Hilferding's 1910 book *Finance Capital*[9], "which proclaimed a new stage of capitalism characterized by complex financial relations and domination of industry by finance."[10] Hilferding also notes that, "Finance capital signifies the unification of capital. The previously separate spheres of industrial, commercial and bank capital are now brought under the common direction of high finance, in which the masters of industry and of the banks are united in a close personal association. The basis of this association is the elimination of free competition among individual capitalists by the large

[9] There is some argumentation as to whether this book represents a continuation of Marx's *Capital*, as Bauer and Kautsky have stated, or if it is merely an attempt to justify state-centered capitalism, as Mandel charged. Regardless, it serves as a good starting point for an analysis of a phase of capitalist development.

[10] Dimitri B. Papadimitriou and L. Randall Wray, "Minsky's Analysis of Financial Capitalism" (The Jerome Levy Economics Institute, Working Paper No. 275, 1999), 1.

monopolistic companies."[11] From this conception, it is clear that finance is not merely some new or different avenue of accumulation, but rather an evolution in the encompassing mode of social accumulation. Finance is thus part of economic, social, and political theorizing, even though neoclassical economists attempt to cleave it off of the "real" economy of material production and refuse to take it into consideration for economic theorizing.[12] It makes sense to say, in that case, that to say that finance is not a "thing" as much as it is a process, wrapped up in the understanding of capital accumulation in all spheres: production, distribution, and consumption. Whereas orthodox economics often likes to freeze time, looking at all economic transactions as happening at once with all people having perfect knowledge, financial capitalism emphasizes that process of capital development.

It is important to take note of the complexity and the uneven magnitude of financial arrangements. Not only that they are temporal but also broadly construed, penetrating multiple areas of society. In other words, the financial decisions of tomorrow are influenced by the financial decisions of yesterday, and events in what were once separate arenas of accumulation (banking, industry) are interconnected. When such is the case, a general crisis is not only possible, but the effects are magnified. This idea of financial interconnectedness seems obvious enough when given a moment's thought, but this analysis will show that most modern economic (specifically monetary) theory have no use for such limitations in their models, preferring instead to conceive of finance as discrete autonomous events. Of course, not all finances are equal, and the mode of financial accumulation that Hilferding laid out in the early part of the 20th century

---

[11] Rudolph Hilferding, *Finance Capital: A Study in the Latest Phase of Capitalist Development* (Routledge, 2006), 301.
[12] Dimitri B. Papadimitriou and L. Randall Wray, "The Economic Contributions of Hyman Minsky," *Review of Political Economy* 10, no. 2 (2003): 207.

focused the tendency to monopolize with all the ensuing ills: dwindling competition, stagnation, and falling wages.[13]

While that may be the etymological explanation for the phrase "finance capital," Hilferding's mostly industrial explanation of that mode of production fails to explain the worldwide depression of the 1930s.[14] The consolidation of management and labor unto capital accounts for the over management of labor, but does not take into account the crippling effects of overproduction or under consumption that emerged. This points to a flaw in Hilferding's argument, that he does not sufficiently answer the question, "who finances finance?" The clear answer is that it is a social burden. This does not necessarily show that Hilferding's analysis is somehow incorrect, or insufficient, only that when viewed as a process, Hilferding's analysis is dated, and new forms and behaviors of financial capital have evolved. Indeed, Minsky was fond of saying that there were as many varieties of capitalism as Heinz had pickles – fifty-seven. In fact, if one were to trace the evolution of finance capital, a good theoretical progression would move thusly: Hilferding to Veblen to Keynes to Schumpeter to Minsky: all political economists trying to grapple with the realities of the movement of finance, which had confounded neoclassical economics.[15]

Hilferding puts forth the tendency to monopolize, stagnate, and drive down prices and wages. This is picked up and expanded to include more than simple industrial production by economists in the tradition Baran and Sweezy by showing how profits are reinvested in risky ventures to keep capital circulating, and the resulting stagnation that occurs when reinvestment opportunities run out. This idea of having socially necessary outlets to funnel profits tracks back

---

[13] Hilferding, *Finance Capital*, 227.
[14] Papadimitriou and Wray, "Minsky's Analysis of Financial Capitalism," 1.
[15] Ibid.

to Thorstein Veblen, who shows the uneasy relationship between business (money accumulation) and industry (technological development), and that although both of them are needed, there is a strong shift toward the subsumption of industry into business.[16] This subsumption basically means a stark emphasis on profits that actually could in the long run hurt industry. Veblen's' theory works thusly: A firm relies on credit in order to finance its capital assets and assure smooth capital valorization. Prices determine the industrial output, however, as well as the level of access the firm has to credit. If conditions change for whatever reason, and prices sink and the rate of profit cannot be maintained, then the industrial production will cease, even though it had nothing to do with the firm's fluctuating prices.[17] There is a clear delinking of profit margins and industrial production, which it is only logical to deduce increases financial instability. Keynes put forward an impressively comprehensive analysis of the causes and prescriptions for what ailed the American economy in the 1930s by arguing for an institutionally limited financial capital with a large amount of the investment "socialized," or run by the state apparatus.[18] Schumpeter argued for a cyclical understanding of capitalization and the leveraging of technological dynamism into new modes of production that would have to be financed. As a result, the institutional floors and ceilings set up by Keynesians would ultimately be broken down, so that financial and technological innovation may provide for the chaotic capital development of the country. This limited evolutionary chain of economic ends with Hyman Minsky, who believed in endemic financial instability, and the necessity of governments and banks both "big" enough (in terms of money reserves) to recapitalize markets to keep from a

[16] Thorstein Veblen, *Essays in Our Changing Order* (Transaction Publishers, 1997), 140.
[17] Ibid., 115.
[18] In Minsky's 1975 *John Maynard Keynes*, he argues that Keynes had a much more in depth understanding of the complex financial relations of the American economy than he is given credit for. It is the work of what Minsky calls the "neoclassical synthesis" that has reduced Keynesian thought to neoclassical economics plus a weak aggregate demand function incorporated into old equations.

deflationary spiral that would result in a depression. Fiscal policy would be full employment, public works programs, and direct transfer payments (welfare) to those who need them.[19] The most striking thing about this chain is that by the time it gets to Minsky the centrality and interconnectedness of complex financial arrangements is more or less assumed, the factors in question now being to what extent fiscal policy should try to create certain measurable outcomes both in industrial production and in financial relations.

In this framework, Minsky's work is often seen as an attempt to synthesize the dynamic instability of capitalism (Schumpeter's famous "creative destruction") that relies on ever-evolving innovation and the importance of finance to fund such innovation, with an institutional approach to recognize and counter instability (such as Keynes' "animal spirits").[20] Keynes' institutional approach would be a way to socialize investment, thus further limiting instability. Minsky's synthesis is at first a strange result, because Schumpeter and Keynes had little in common by way of economic theorizing. But it makes sense: Minsky believed that one could not stop the endemic instability of financial cycles – after all, how could new avenues of investment not be pursued? He also believed that a strong institutional framework would limit the damage done by this creative destruction. The result is a guarded belief in a market economy that nevertheless needed the heavy hand of the government in order to maintain the markets to mitigate the social collateral. Although this was Minsky's policy objective, his contribution to finance capital is not such a synthesis. Rather, Minsky explains how a new form of financial capitalism emerged that knocked (what he argued was) Keynesianism off the rails. This is important to note because Minsky dealt with financial capitalism as he diagnosed it, not as he wished it to be. His conception of financial capitalism came out of this line of thought

[19] Papadimitriou and Wray, "Minsky's Analysis of Financial Capitalism," 2.
[20] Charles J. Whalen, "A Minsky Perspective on the Crisis of 2009," in *Minsky, Crisis and Development*, ed. Jan Toporowski and Daniela Tavasci (Palgrave Macmillan, 2010), 107.

The form of financial capitalism that emerged after the Great Depression and its end via World War II was what Minsky and many others have called a "managerial" capitalism, which was a paternalistic capitalism built on corporate activity. In this phase of finance capital, corporate indebtedness was low (because the state ran Cold War deficits), and a good deal of wealth and ownership of capital assets was spread to a large section of the population due to the generally 1:1 ratio of productivity and wages. This necessarily results in individuals (or households in common macroeconomic speak) with a greater share of surplus to invest, prompting a wave of investment in mutual funds, pension funds, or other kind of financial instruments – some of which, one could argue, were specifically designed to be vehicles to handle this sudden influx of surplus. While it is very easy to wax nostalgic about the emergence of the middle class and cars being available to all, the flip side of this material well-being is that this money needs to be constantly managed so that it may valorize.[21] Even if the new middle class is not strictly "capitalist," a surplus must find avenues of valorization or it ceases to be capital; and there are only so many refrigerators a person needs. The socialization of investment did not occur; instead the emergent middle class gave their share of the surplus back to capital in order to be valorized. Keynes' dream was dead, and Minsky's synthesis was put on hold.

This buildup of excess money that needed to be valorized reach a point around the early 1970s that a new phase of finance capitalism emerged, which Minsky called "money manager" capitalism.[22] The political and social realities of money manager capitalism will be dealt with later in this project, but it is enough to say that where managerial capitalism was essentially a

[21] Minsky, Hyman P. "Reconstituting the United States' Financial Structure: Some Fundamental Issues." Levy Economics Institute Working Paper No. 69, 1992. 31.

[22] On an undated handwritten note found in Minsky's archives, he had the note "Managerial v. Money Manager Capitalism?" attached to a small number of his articles. While he is explicit in making the distinction in various publications, this seems to indicate that he is either unsure how, or not inclined, to figure out just when such a turning point was reached.

paternalistic model focused on a more equal distribution of the surplus, money manager capitalism is the elevation of economic units as single-minded pursuers of self interest/profit and as such most accurately describes the current mode of capitalism. It is not some mendacious turn at the start of the decade in order to ruin the American middle class, but rather a necessary evolution.[23] Minsky defines money manager capitalism thusly:

> Capitalism in the United States is now in a new stage, *money manager* capitalism, in which the proximate owners of a vast proportion of the financial instruments are mutual and pension funds. The total return on the portfolio is the only criteria [*sic*] used for judging the performance of the mangers of these funds, which translates into an emphasis on the bottom line in the management of business organizations. [Emphasis original][24]

While it would be appropriate and easy to bring in the specter of neoliberalism to explain this transition, for the time being I only want to take up money manager capitalism as an economic program to explain Minsky's argument for the shift from managerial to money manager capitalism. One of the intellectual mandates for Keynes' economics was "euthanizing the rentier," which more or less means reducing capital's share of the surplus, in favor of a more equitable distribution. Money-manager financial capitalism, however, is the enshrining of managed money as the "proper" rent-seeker.[25] As Minsky says above, the return on the portfolio is all that matters in money-manager capitalism, and so short-term profits become too enticing to pass up (Reaping profits from GMAC, for instance, is far easier than making a profit in GM proper, because one only needs to make loans to make a profit in the financing arm and avoid the

---

[23] This is a slightly different take than David Harvey's take on the neoliberal "turn." His text seems to indicate that it is indeed part of some coup by the ruling class to retrench themselves in positions of power. This may be true in a sense, but it does not quite explain the coevolutionary and codeterminant ways in which financial capitalism has evolved. Capital personified can only reinvest the surplus to keep circulation moving along. The shift from managerial to money manager capitalism, however, does give such an evolutionary explanation, which is more important than nailing down a precise date in the 1970s.

[24] Minsky, "Uncertainty and the Institutional Structure of Capitalist Economies," 358.

[25] Yeva Nersisyan and L. Randall Wray, "Transformation of the Financial System: Financialisation, Concentration and the Shift to Shadow Banking," in *Minsky, Crisis and Development*, ed. Jan Toporowski and Daniela Tavasci (Palgrave Macmillan, 2010), 45.

messy business of actually making a vehicle). The problem, then, is not the neoliberal turn itself, but rather that the neoliberal turn should compel us to analyze this new kind of capitalism that emerged with the advent of the money manager/financier/*rentier*.[26]

At this point, this brief history is sufficient to firmly state that there is no *a priori* assumption to be made about the nature of the "finance" in "finance capital." Hilferding's tendency to monopolize is clearly a different mode of capitalism than Minsky's money manager model. The very concept of finance capital is open to negotiation, and it is vital to keep its evolution in mind when formulating a conception of finance capital or its critique. It will prevent an appeal to nostalgia, and also an anachronistic approach to the current context. The political, social, economic, and institutional realities are different now than they were in the 1930s, for instance, so pining for the New Deal gets us nowhere. In other words, the mode of finance capital to be analyzed is now, and the tools to do it must be as recent and as innovative as finance itself. This short history of finance is not merely for the edification of the reader – Veblen believed that institutional forms were fluid and produced various cultural and social effects, and the discipline of economics is about twenty-five years behind what is actually happening in the business world, so an appeal to that discipline will not help either.[27] It is better not to go hunting for the supreme ontological truth of what constitutes finance, or to chase the specter of some kind of pure, unadulterated capitalism, but rather try to understand the current iteration as it is found. This evolution simply sets up a general notion of what Minsky was trying to reconcile is his understanding of finance through a synthesis of Schumpeter and Keynes: the incredible destabilizing innovation (mostly of the financial sort) and the institutional constraints that can be

[26] Riccardo Bellofiore and Joseph Halevi, "Magdoff-Sweezy, Minsky and the Real Subsumption of Labour to Finance," in *Minsky, Crisis and Development*, ed. Jan Toporowski and Daniela Tavasci (Palgrave Macmillan, 2010), 82.
[27] Veblen, *Essays in Our Changing Order*, 4.

placed to mitigate the economic fluctuation that results from that innovation. His project was to determine why his synthesis did not occur, and eventually, what kind of economy might have to exist in order for it to do so.

*Efficiency-Seeking Economic Orthodoxy Versus The Financial Instability Hypothesis*

Minsky's primary contention throughout his career was that instability is an inherent aspect to financial capitalist development, which includes wild swings of speculations, and enormous crashes that bottom out in depressions. Even periods of stability themselves sow the seeds of instability. After the Great Depression of the 1930s, however, there was a period of relative calm. Minsky attributes such a respite as a result of the economic policy coming out of the Great Depression, which instituted floors and ceilings to contain the highs and lows of the business cycle domestically, as well as a bizarro-Keynesian warfare state abroad, thus containing instability to socially acceptable levels. This big government, managerial form of capitalism prevented "IT" (Minsky's favored way to refer to depression) from happening again by having a government large enough to recapitalize markets to prevent the liquidity trap coming out of a deflationary spiral, stimulating aggregate demand, and establishing the Federal Reserve (what Minsky referred to as the "big bank") as the lender/spender of last resort. [28]

In his analysis, Minsky was concerned with two questions arising out of post-war global capitalism: what accounted for the stability from 1945-1973? And why is there increasing (both in magnitude and occurrence) instability seen thereafter? His body of work answers thusly: the post-war stability was accidental, and the instability after 1973 displayed the enormous magnitude of endogenous instability of money manager finance capitalism. It is important to note that Minsky believed instability was endogenous to financial capitalism, not caused by

---

[28] While these themes are common to virtually all of Minsky's writings, the argument is best contained in its entirety in his 1986 volume *Stabilizing an Unstable Economy*.

exogenous shocks. As such it is something to be contained, not eliminated or guarded against. In this respect, after the crippling deflationary spiral of the Great Depression, there was a strong containment via legislation, partially accounting for the post-war calm. Instability was not neutralized or eliminated, just very well managed. After the advent of money manager capitalism, however, the institutional restraints were lifted, encouraging behavior by both financiers and the state, which would result in ever-larger financial instability. This is the result of Minsky's Schumpeter-Keynes synthesis: the creative destruction of capital accumulation and financial innovation continues with the ceilings and floors of macroeconomic institutional policy to mitigate the social impact of such destruction.

Setting floors and ceilings for instability determines the magnitude of both the boom and the crash. Such an understanding is in direct contradiction to the equilibrium-seeking models preferred by many economists, where the economy cannot help but seek balance (however one defines "balance"). The most glaring logical error in such thinking is that it fails to account for just how bouts of instability emerge in the first place, nor what the balance-inducing catalyst might be (though very often these thinkers are the ones trying to find the ghost in the machine). Because the equilibrium chasers comprise the predominant thought on political economy, I will display why their attempts are misguided, and also why the Minskian alternative is a better starting point from which to critique a particular mode of finance capitalism. There are two lines of analysis that efficient market thinkers use against Minsky's FIH: first is that it is not scientifically rigorous enough, and second is through a bit of logical trickery that only shows that equilibrium-seeking models are not falsifiable. In the first case, that the FIH is not sufficiently scientific, is mostly a question of methodology. It was always Minsky's stated goal that the best economic theory is not merely some jumble of axioms about the way things should work and then making the world fit them, but to use the experiential (everyday) and observable aspects of how economies work and deriving a usable theoretical framework from that. This is a different method of analysis than the equilibrium seekers (harmonizers?) use, and so Minsky is already excluded from the realm of rigorous, "scientific" economic analysis. The second line of analysis is that this attitude not only excludes Minsky (and other heterodox economic theorists), but in so doing, the equilibrium-seeking economists have made their discipline unfalsifiable. Through some mental gymnastics, the argument is constructed as such: equilibrium-seeking orthodox economic theory will allow for disturbances, crises, bouts of irrationality, and other kinds of inefficiencies. However, since they are not "normal" operations of the economy, the aberrations, while being allowed for, simply disappear. Apparently, when spooked, the flock of black swans flees under a "rigorous" analysis of how the economy "works." Thus, orthodox equilibrium-seeking economic theory can never be wrong by its own conventions – the challenges to its science (the "aberrations" of instability, crises, etc.) are ignored. The irony in this construct is that that falsifiability is a pillar of empiricist scientific thought. In its attempt to become a more rigorous "science" orthodox economics has instead made itself less scientific.

All of this is simply to say that Minsky's FIH deserves a serious analysis – and if he will not get it in his home discipline of economics, an interdisciplinary approach spanning the political, social and cultural consequences of financial instability will do justice not only to Minsky's economic vision, but his social and political vision, as well. This analysis will not assume that equilibrium is a teleological necessity of financial capitalism. The poverty of economic theory is an interdisciplinary opportunity for other social sciences to engage economics and construct even stronger theories. In the brief history of finance capitalism that I just laid out, after all, each thinker, from Veblen to Keynes and Schumpeter, each laid out their economic theory couched in an understanding of the relationship between economy and society. To say that Hyman Minsky is a political economist then, is to go beyond merely saying that he goes beyond simple policy prescriptions, but attempted to get at a deep understanding of the social relations that comprise them.

Even though Minsky's hypothesis has only recently enjoyed discussion (although the depth of the discussion is at times worrisome), the FIH is only one part of his overall social and political vision. Even so, it is an important place to start a critique of how to determine the financial framework of the economy:

> Minsky argued that the assets and liabilities of banks largely determine the financial framework of the economy. The fragility of the financial structure is based on the quality of loans made by the bankers. If bankers finance risky operations, they become fragile… Financial innovations such as securitization and credit default swaps, however, have separated risk from responsibility, contributing to a deterioration of loan quality and hence greater fragility.[29]

This fits in with the understanding of how we understand finance: the whole premise, tracing its evolutionary tracks back even to Hilferding, is concerned with how to use indebtedness to lay claim to future cash flows. "Bad" loans, or loans that fail to lay claim to future cash flows, can mean hard times – and to an exponential level if a large part of the economy is constructed on finance. It should also put to bed myths of an overworked money generator in the basement of the Federal Reserve building. It is clear from this analysis that money is created via banks making loans on ventures in order to lay claim to future cash flows, and the importance of these loans to the overall economy has grown. If these cash flows do not materialize, then a crisis erupts.

During his career, his contributions to economics were often ignored for being insufficiently scientific. Even though the FIH was derided for not being sufficiently rigorous, it is

[29] Nersisyan and Wray, "Transformation of the Financial System: Financialisation, Concentration and the Shift to Shadow Banking," 37.

a "preanalytical" tool that tries to say something unique about social relations.[30] Contrary to the borderline economic mysticism of the equilibrium-seeking efficient market thinkers, Minsky provides the analytical tools to best understand financial instability in the current context in his three moments of the financial instability hypothesis; hedge, speculative, and Ponzi Finance. These "preanalytical" categories will allow me to construct a clear social critique that emerges from these modes of finance. This exposition is not, therefore, the "key" to understanding financial capitalism, just a helpful tool for how we can understand the current political economy in order to make a more penetrating critique.

### 1.2 Hedge Finance

> A unit is hedge financing at a particular date when at that date the expected gross capital income exceeds by some margin the payment commitments due to debts in every relevant period over the horizon given by the debts now on the books and the borrowings that must be made if the expected gross capital income is to be earned. The liabilities on the books at any time are the result of past financing decisions. As such they are entered into on the basis of margins of safety.[31]

This is the kind of conservative financing that many investment firms pretend they engage in when advertising. All Minsky is saying here is that a firm's capital assets will yield a high enough profit to cover all of its repayment commitments like wages and upkeep (in Marxian terms, the $s$ is a high enough ratio to $c + v$ that there are no worries about reinvestment opportunities for the profit). Firms engaged in hedge finance have a low debt load, and they are ostensibly focused "on the long term." That is, their capital asset returns are expected to exceed their debt payment obligations well into the future. In a simple industrial hypothetical, hedge finance might look something like this: a bank provides a loan to a company to purchase the

[30] Alessandro Vercelli, "Minsky Moments, Russell Chickens and Grey Swans: The Methodological Puzzles of Financial Instability Analysis," in *Minsky, Crisis and Development*, ed. Jan Toporowski and Daniela Tavasci (Palgrave Macmillan, 2010), 16.
[31] Hyman P. Minsky, *Can "It" Happen Again?: Essays on Instability and Finance* (M.E. Sharpe, 1982), 25.

capital assets needed in order to produce a consumer good. Consumers purchase the good at a strong enough rate where the company can easily make its payment to the bank, and in turn so may the bank make its payments to its depositors. So in this scenario, the company making the product is the unit engaging in hedge finance. If either the company's profits or the bank's deposits fall through, then there is trouble, but more on that later. Suffice it to say for now that the slip out of hedge finance can be completely disconnected from the level of output of firms, and even outside the sacrosanct fundamental principle of orthodox economics of supply and demand.

In a firm that is in a hedge position, Minsky says, is "vulnerable only to a cost escalation or to revenue declines, for its balance-sheet payment commitments will not be directly affected by developments in financial markets."[32] This simply means that such monetary tools as interest rate adjustments or inflationary pressures have little effect on the firm to meet its payment obligations. What is responsible for cost escalations or revenue declines has yet to be determined, but be they trade deficits, currency exchange, or something else, it is unimportant. It is worth noting, however, that this proposition by Minsky exposes a paradox of orthodox monetarist economic theory: Monetarist more or less believe that the entire economy can be managed by controlling the money supply from the central bank (in the US, this central bank is the Federal Reserve). So if firms behave how monetarists believe they ought to behave, then there is no need for monetarist policy, since the tools (such as changes in interest rates issued by the Federal Reserve to manage the supply and velocity of money) do not have any impact on the firm's ability to make its payment obligations per Minsky's definition of a sound financial unit in hedge mode. In fact, Minsky only ever talks about the need to control the velocity of money

[32] Hyman P. Minsky, *Stabilizing an Unstable Economy* (McGraw-Hill, 2008), 232.

when firms slip out of hedge finance, where the economy can be sustained by state-deficit financing.[33] And since, as I have stated above, whenever financial units are unsound, monetarist theory jettisons them from consideration as aberrations, this line of thinking becomes a closed loop that cannot but always work. It seems monetarist theory only works when no one needs it!

### 1.3 Speculative Finance

However, if cost escalations or revenue declines do occur, the firm that was once hedge financing has slipped into speculative financing:

> A unit speculates when for some periods the cash payment commitments on debts exceed the expected gross capital income. *The speculation is that refinancing will be available when needed*. This speculation arises because the commitments provide for the repayment of debt at a faster rate than the gap between revenues and costs allows for the recapturing of the money costs of capital assets. [Emphasis added][34]

In speculative finance, the cash receipts still exceed payment commitments, as is the case with hedge financing. Sometimes, though, payment commitments exceed expected cash receipts and firms are forced to refinance in order to make sure they can validate their debt obligations.[35] Even though they take on debt because of "temporary" shortfalls in cash receipts, capital assets are expected to be able to cover the costs of these gaps in payment obligations. Returning to the hypothetical scenario, between the bank and company, sales may be down or the prevailing rate of interest may make capital assets of less value. In such a case, if the cash shortfall were very temporary (as in a matter of days), they could take to the commercial paper market. If longer, they would have to get the bank to agree to a refinancing, in order to reflect the new value of the capital assets (which are now lower for a variety of reasons possibly outside of the firms' control). A reorganizing bankruptcy may be in order in some cases, but it is not necessary in a

[33] Papadimitriou and Wray, "The Economic Contributions of Hyman Minsky," 9.
[34] Minsky, *Can "It" Happen Again?* 26.
[35] Ibid.

speculative mode of finance so long as the firm can convince its creditors that eventually cash flows will once again cover the costs of capital assets, or that a refinancing plan will close that same gap.

One important aspect of speculative finance is that the slide into speculation is not some moral failing or lapse of business judgment or a lack of capitalist acumen, but it is an inexorable result of hedge finance itself. When cash receipts come in and debts commitments are easily repaid, the resulting stability prompts firms to seek out riskier ventures in order to lay claim to higher cash flows – after all, at the beginning, payment obligations are easily covered. If the investments become profitable, then there is a large cash flow to be claimed and with a large enough capital base, even short term or contained failure can be sustained in the pursuit of these bonanzas. It is important to keep this in mind when talking about modes of finance. Financial capitalism is not a morality play – speculative finance is not "worse" than hedge finance, for Minsky it is just the inevitable movement that one must tolerate in financial capitalism. Then going back to the industrial hypothetical, if the firm cannot make its payment obligations for whatever reason (constant capital costs, the prevailing rate of interest makes debt refinancing unfeasible, etc.) they will approach the bank for refinancing. The bank may do so in order to increase its claim on cash flows, or it may simply secure the existing claims. An important change has taken place since the firm has been engaging in hedge finance, however. The firm is now increasing its debt load, promising to its creditors that future cash flows will materialize in order to pay back the bank with interest. The firm is not engaging in speculative finance; the bank is speculating upon it. It is clear here that there is an expansion of risk to include not only the risk of production of the industrial firm but also a risk of financing by the bank. The precariousness is clear. Now, a bank failure can sink the firm even if, in strictly industrial goods production terms, the firm is not failing. Such a lack of credit and/or refinancing is a credit crunch, which once again, is completely unable to be accounted for in equilibrium-seeking orthodox economics.

Because firms engaged in speculative finance are so reliant on flexible credit extensions for refinancing, and have to rely on supplementing their capital in the market in order to validate their payment obligations, they are open to instability in the broader markets. Clearly, this is less stable than hedge financing, and opens up exposures for firms to shifts in capital markets. Minsky notes that commercial banks can never be hedge financing, since they engage in speculation by advancing the capital in refinancing. As Minsky puts it, "Speculative finance involves the short financing of long positions."[36] In other words, the firms making the loans are essentially betting that the short run profits of the financing will outpace the long term profits of the potentially profitable enterprise: of course the borrower is making the opposite bet, that the debt taken will be a cost well-incurred once they hit the bonanza. This is indeed the very role of commercial banks – a bank engaging in hedge finance would not work, as they need to finance positions in order to pay their depositors a higher rate of interest. Nevertheless, speculative units still expect to see cash receipts increase (and indeed, since the financing is somewhat riskier than in the hedge finance phase, the payouts are higher, again accounting for how commercial banks can offer sometimes attractive interest rates to their depositors). Since the commercial (or investment, though that line is pretty unclear at this point) bank is the one originating the loan, it is always speculating at the point of offer, even though it fully expects to lay claim on more future cash flows than not. Clearly some speculation makes more sense than others and it can seem stark as to what would constitute good speculation (where cash flows are claimed) and bad

[36] Minsky, *Stabilizing an Unstable Economy*, 231.

speculation (balance sheet write-downs due to non-payment). After all, a commercial bank issuing a standard thirty-year fixed rate mortgage is a speculative loan, albeit a very structured, boring, and terribly long term loan. The more interesting entity is an investment bank, with the resulting innovation of securitization of mortgages into 2/28 adjustable rate mortgages. The first instance may be a good speculative bet, based on the creditworthiness of the borrower, and the second may be begging borrowers to strategically default if the price of the house dips.

As Minsky has already explained, investment banks can only ever be speculative units. One does not need to look much past the pumping up of IPOs or frenzied acquisitions or mergers. Blowing up a stock offering in order to bring it public in order to cash out right after is ultimately shorting the long position of a stock offering,

### 1.4 Ponzi Finance

> Ponzi units are speculative units with the special characteristic that for some if not all near term periods cash payment commitments to pay interest are not covered by the income portion of the expected excess of receipts over current labor and material costs. These units must borrow in order to pay the interest on their outstanding debt: their outstanding debt grows even if no new income yielding assets are acquired.[37]

While the term “Ponzi” is usually associated with swindling or firms acting in bad faith, Minsky means something more narrowly defined by the term. However, like a Ponzi scheme, traditionally conceived, it is true that firms take on more debt to make debt payments – which is only possible if the firm is able to attract enough investment. But unlike traditionally conceived Ponzi schemes, there is still the expectation of, in some time, cash flows once again being able to validate debt payments. An obvious example of Ponzi financing would be the heavy investment

[37] Minsky, *Can “It” Happen Again?*, 28.

in tech startups during the bubble of the late 1990s.[38] Millions of dollars are sought from outside investors, or "venture capitalists" in order to keep operations running, even if the company is years away from profitability. The firm may also just not be profitable at all, and the money is simply lost. To once again use the hypothetical relationship between bank and industrial firm, assume the firm does not actually make anything, but is some new kind of technological social networking application. Outside investors pump millions of dollars into these ventures, even though they are a ways from profitability (many commercial banks do not get into these kinds of investments formally, but there is a discussion of "special purpose vehicles" coming later). Sometimes it works, as it has spectacularly with Google and Facebook, and other times it fails spectacularly, as is the case with pets.com.

Minsky is clear that in terms of degrees of difference, speculative financial units are closer to Ponzi units than hedge units. If speculative units are sensitive to interest rate changes, cost escalations, and revenue declines, then the impacts of any of these events happening turns speculative firms into Ponzi firms. Debt piles up, and during a general crisis, where the cash flows that underlie capital assets come due, the Ponzi firm is unable to validate its debt payment obligations.[39] There are a number of ways for a Ponzi firm to proceed from this point. It can simply close up shop and have its debt forgiven, or file for bankruptcy protection/restructuring.[40] Or, as Minsky will assert, if the crisis is generalized, the "big" government will step in and recapitalize Ponzi firms in its capacity as the lender/spender of last resort, and turn Ponzi units

[38] Though it is not necessary to maintain that the bubble was contained in the 1990s. Ponzi financing of technology is still going strong. In 3 years, beginning in 2006, social networking site Twitter raised 155 million dollars from venture capitalists and hedge funds. Twitter did not make a profit until 2009, which barely surpassed their operating costs. A decade after the tech bubble burst, there is still plenty of confusion over how to make a popular internet phenomenon into a profitable enterprise (http://www.businessweek.com/technology/content/dec2009/tc20091220_549879.htm).

[39] The general crisis being a credit crunch, or what Marx referred to as a "monetary famine," where cash is king when accounts need to be settled and credit has dried up. (Marx, Karl. *Capital, Vol. I.* (New York: Penguin, 1990), 236.

[40] Minsky, *Stabilizing an Unstable Economy*, 231.

into speculative (if they bailout banks), or even hedge (if they bail out firms directly), finance units.

These modes of finance are not necessarily discrete events, where the economy shifts *en masse* from any one mode to another, though the trajectory from hedge to Ponzi, with speculative in between is the general slide. Rather, firms (and households to a lesser extent – Minsky argued that households can never be engaging in hedge finance because they do not use capital assets "productively" to valorize capital) themselves are the units engaging in these modes of finance, and the overall aggregate of these firms constitutes the mode of finance generally. These analytical categories give us ways to think about the economy generally, the basic premise is that financial cycles cause business cycles, which, if true, negates most economic theory.

**1.5 The Problem With Minskian Analysis Today**

I am not offering an interpretation of Minsky as if to suggest that I have plucked him from obscurity; indeed some of his work is very often trotted out during moments of economic stress to try to make sense of why the government has once again had to step in and recapitalize firms or banks. My goal is to offer a reinterpretation of Minsky that not only explains the moment of a financial crisis, but also as point into forming a radical political and social theory. As I have stated earlier, the phrase "Minsky Moment" has entered the vernacular as a quick and easy explanation for this crisis, though it fails to tell us anything about crisis *itself*. If the entirety of his body of work is reduced to that there comes a point where the state must step in as the lender of last resort in order to recapitalize markets, then Minsky's analysis is useless. It is simply reduced to an observational yardstick, appropriate to bring out when the next round of firms needs to be recapitalized to escape Ponzi status and prevent a crippling deflationary spiral.

The term must go beyond simply being "…a phrase describing the point at which a credit cycle suddenly turns from expansion into contraction."[41] The point of this research project, then, is not to find the points at which such a cycle turns – looking for only those points would not actually tell us anything about the instability that is being seen. In fact, the very point of Minskian analysis is that instability is observable *at any point* in financial cycles, even in the supposedly safe havens of hedge finance.

A good deal of economic theorizing has tried to incorporate more than simply the "Minsky Moment" as a descriptive phenomenon, but I argue that there is still not quite a full engagement with the entirety of Minsky's vision. I will sketch out how Minsky is misappropriated in various texts to explain financial instability; reminiscent of how Minsky himself worried that John Maynard Keynes was being misappropriated in economic literature. I will also flesh out Minsky's broader social and political vision that is far broader than merely the Financial Instability Hypothesis. Finally, I will argue that if we turn a political lens to Minsky's writings, there is a sound basis for a radical critique of political economy, and a proper Minskian analysis of the current crisis will justify such a radical critique. I will show this progression and then explain the point of departure for this research project.

There is a section of economic literature that simply gets Minsky's theoretical vision wrong. In his seminal work, Kindleberger notes "Minsky argued that the events that lead to a crisis start with a 'displacement,' some exogenous, outside shock to the macroeconomic system."[42] This is an incorrect reading of Minsky, who actually said "Profit opportunities within a robust financial structure make the shift from robustness to fragility an endogenous

[41] George Cooper, *The Origin of Financial Crises: Central Banks, Credit Bubbles, and the Efficient Market Fallacy*, 1st ed. (Vintage, 2008), 12.
[42] Charles P. Kindleberger and Robert Aliber, *Manias, Panics, and Crashes: A History of Financial Crises*, 5th ed. (Wiley, 2005), 25.

phenomenon."[43] What is frustrating about Kindleberger's error is that Minsky's sentiment quoted above appears in a good deal of his writings – Minsky is very clear on the point that the causes of fragility in financial structures lies entirely in their own workings: as I have stated before, investment cycles determine business cycles. The other aspect of this misreading is logical: if financial capitalism is the dominant mode of production, distribution and accumulation, where is the "outside" from which these exogenous events can exist to shock the system?[44] Kindleberger mostly relies on technological and financial dynamism in order to make the case that such shocks exist, but such dynamic innovation only exists *inside* the framework of financial innovation, making it an endogenous event.

Although Kindleberger makes an important misstep, it is also an understandable one. If one is unaware that Minsky's entire research program was basically a synthesis of Schumpeter and Keynes' thought as I have noted above, then it would be simple enough to assume that Minsky applied the same kind of logic to financial cycles as Schumpeter did (who did believe in exogenous events from the financial sector causing shocks, and was, after all, Minsky's dissertation adviser until his death in 1950). Kindleberger seems to be rehashing the Schumpeterian vision of capitalism's "creative destruction" without also adding Minsky's synthesis of Keynes to that vision that argues for such destruction's endogeneity. On the other hand, this could just be more evidence of the pervasiveness of orthodox economic theory – crises and other instabilities are caused by external factors that interrupt an otherwise humming economic system. Endogenous instability forces economic literature to deal with the fact that the disturbances cannot be dismissed as acts of god.

---

[43] Minsky, *Stabilizing an Unstable Economy*, 234.

[44] It is difficult to determine just where Kindleberger gets this argument. In the footnote he supplies in his argumentation for exogeneity, he cites the entire 1975 Minsky text *John Maynard Keynes*. It is unclear where in this book he would have derived his conclusion, as the endogeneity of financial instability is abundantly clear in that volume as well.

The point of departure from this viewpoint – the misappropriation of Minsky's vision – is also bound up in Kindleberger's ultimately unhelpful project. He defends what he believes to be a Minskian analysis on the grounds that even though each crisis has a unique set of conditions that bring it about, he does argue that even if each event is unique, the "structure abides."[45] This argument will bring us back to the evolution of financial capitalism discussed above. With the Veblen-inspired theorizing that modes of accumulation and finance are shaped by and shape social and cultural relations, Kindleberger seems to want it both ways. He both wants to give a history of financial crises setting the conditions for the next new crisis, but denies that the social and cultural relations from which they emerge have anything to do with the onset of crises, but rather the triggers for crises come down from on high. The consequences of such a line of thinking are worrisome; in one instance, Kindleberger correctly notes that many foreign banks profited off of a spike in oil prices in the 1970s.[46] What he neglects to do is explain just how the oil shock came about. While that is certainly lamentable, this is symptomatic of Kindleberger's position in exogeneity – it just does not matter how the oil shock happened, because the shocks just come.

Not too long after that, Kindleberger assures his readers that, "[t]his book is a study in financial history, not economic forecasting. Investors seem not to have learned from experience."[47] This is at best a paradoxical stance, but it ends up being very unhelpful. Each event is unique but there are characteristics we can use – but we cannot engage in any kind of forecasting. So what good is it? Minsky was intimately involved in forecasting, prognostication, and a commitment to political engagement that would not fit Kindleberger's use of him in his

---

[45] Kindleberger and Aliber, *Manias, Panics, and Crashes*, 34.
[46] Ibid., 170.
[47] Ibid., 37.

text. In Kindleberger's case, the incorrect introduction of exogenous events to explain financial instability is too close for comfort to the empty buzzword "Minsky moment," and at that point it fails to have any kind of explanatory power other than a crisis has erupted – something by which time most people already are aware.

Another example of literature that attempts to appropriate the FIH simply has it plugged into to some kind of orthodox economic understanding. In Charles Morris' *The Two Trillion Dollar Meltdown*, the author makes the case that Minsky's FIH is sadly an often ignored piece of financial wisdom, eclipsed by the monolithic Chicago school of economics (the irony here is that Minsky did his undergraduate education at the University of Chicago and often credits his advisers in the economics department for his understanding of financial capitalism). He then proceeds to spend a page and a half on why the FIH can tell us a great deal about instability, but then leaves it alone entirely, instead veering off into what a great job Paul Volcker did of curbing inflation and setting the stage for the booms/meltdowns of the 1980s and 1990s.[48] Volcker's policy was basically to jack up interest rates, a monetarist policy that did little, Minsky argued, but cause a credit crunch – an odd way to solve a financial crisis, to say the least, calling the idea "simplistic" and arguments for such a policy "cute."[49] Indeed, while Minsky cared a great deal about inflation, it is an error on Morris' part to suggest that because of this concern, Minskian analysis would fit into the Volcker program of inducing a credit crunch (though it is clear that both Volcker and Morris uncritically accept the idea that inflation is nothing more than too much money chasing too few goods – the next chapter will present a challenge to such an understanding). Minsky, who was vociferous about his concern that the Reagan administration

[48] Charles R. Morris, *The Two Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash*, Revised ed. (PublicAffairs, 2009), 142.
[49] Hyman P. Minsky, "Reconstituting the United States Financial Structure: Some Fundamental Issues" (The Levy Economics Institute, Working Paper 69, 1992), 9.

did not bode well for the health of the US economy, noting, "…the Reagan road is not the right way."[50] This is a clear condemnation of austerity measures as a road to economic well-being.

But beyond how Minsky felt about the Reagan administration, he was also concerned with just how things like inflation were tamed. For instance, the Volcker induced credit crunch would be responsible for the following scenario:

> In today's economy, fiscal actions and the built-in stabilizers lead to massive government deficits as income falls. Such deficits sustain income, sustain or increase corporate profits, and feed secure and negotiable financial instruments into portfolios hungry for safety and liquidity. As a result, the economy recovers rather quickly from the recession but, because the Federal Reserve intervention has protected various financial markets, the recovery can soon lead to a resumption of an inflationary boom.[51]

Linking this analysis to the current context, what Minsky is saying here is that bailout of financial companies to make them whole on their balance sheets can induce inflation because liquidity is released, but banks are hesitant to loan. Even more damning is Minsky's allegation that: "What is done to break inflation leads to what is diagnosed as at least an incipient financial crisis and what is done to abort the financial crisis leads to inflation."[52] It is clear that the struggle against inflation is not simply inducing a credit crunch, and indeed, Minsky is explicitly arguing here against such policies as the Volcker regime pursued. The irony of Morris' assertion then is that his evidence of an understanding of the FIH only goes to prove what makes the FIH such a fertile theory, simply shoving money at firms stops the depression, but the flipside of that coin is inflation, further amplifying the next bout of instability. Clearly it matters what is done after the adoption of the FIH, not just recognizing it. The lender of last resort could, like any other bank, lend poorly or to the wrong firms.

---

50 Minsky, *Can "It" Happen Again?, xxiv*.
51 Ibid., 68.
52 Minsky quoted in James R. Crotty. *Marx, Keynes and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Policy.* Department of Economics, University of Massachusetts, Amherst. 15.

Beyond writers who merely misappropriate Minsky, there is another strain of problematic Minskian analysis that is even more perplexing, because it does indeed display a proper understanding of Minsky's economic and social vision. In these readings of Minsky he is rightly credited with having a persuasive analysis for the endogeneity of financial instability, but will then refuse to move past that and look at Minsky's attempt at institutional policy prescriptions, much less his complete social vision, often going so far as to explicitly reject his policy formulations. The consequence is much the same as misreading Minsky: the theory becomes merely descriptive, a way to diagnose a crisis after the fact. Minsky was clear that his program was to not only identify the various causes of instability in finance capitalism, but to then figure out ways to address and contain instability. By only acknowledging the first part of this research agenda, Minsky can be folded back into the orthodox economic fold as a way to explain occasional, external jolts to the economic order.

It is in addressing this problem where I hope to do for Minsky what he did for Keynes; to save him from an undeserved synthesis that takes the teeth out of his vision. Minsky very often bemoaned the fate of Keynes in what he referred to as "the neoclassical synthesis." I would argue that this is a term that is too generous, and the appropriate of Keynes into economic orthodoxy was not so much a dialectic synthesis, but a complete absorption. At any rate, Minsky argues that Keynes has been misappropriated by orthodox (or "standard") economics, and is often presented as having a theory of equilibrium that is achieved through a balancing of commodity and labor markets, which will utilize market mechanisms to achieve full employment.[53] This essentially reduces Keynes' sweeping economic and social vision of how to deal with uncertainty into an aggregate demand function that is easily plunked into standard

[53] Hyman Minsky, *John Maynard Keynes*, 1st ed. (McGraw-Hill, 2008), 53.

economic theory, which necessarily tends toward stability. Minsky's entire Keynesian project, then, is that most "Keynesians" actually have very little to do with what Keynes actually said, instead internalizing the neoclassical synthesis. Minsky notes, "To understand Keynes it is necessary to understand his sophisticated view about uncertainty, and the importance of uncertainty in his vision of the economic process. Keynes [or indeed, financial capitalism generally] without uncertainty is something like *Hamlet* without the Prince."[54] Beyond simply negating, or misreading Keynes, Minsky is most concerned with people who have taken up the mantle but seem to have an incorrect interpretation.

As I mentioned earlier, this is not to say that the people who misunderstand or misappropriate these writers are ignorant or mendacious people. After all, in his reinterpretation of Keynes, Minsky is not so concerned with setting the record straight and giving the final, definitive, and inviolable reading of Keynes, but rather he uses Keynes in order to find a theoretical basis from which he can construct his own vision. As two of his students later noted, "His most famous book, *John Maynard Keynes*, is most certainly <u>not</u> about Keynes [underline original]."[55] In the same spirit, I am proposing that Minsky has been similarly absorbed into a new "neoclassical synthesis," where his contributions to economic theory, and serious attempts at fiscal policy and social theory are eschewed for the buzzword "Minsky Moment," used almost entirely to justify a certain kind of monetary policy (most often bailouts). This research project is similarly, strictly speaking, not about Hyman Minsky, but rather how a deep understanding of his contributions to political economy can tell us something about the world as we currently find it.

Continuing my treatment of Minsky as he treated Keynes, I also want to expose a group of literature that claims to be Minskian, but does not go beyond some very basic, uncontroversial

---

[54] Ibid., 55.
[55] Papadimitriou and Wray, "The Economic Contributions of Hyman Minsky," 5.

aspects of Minsky's vision. Much like how Keynes was reduced to an aggregate demand function in an equilibrium-seeking model, I want to offer a reinterpretation of Minsky against this new synthesis so that it is not reduced to something like a bailout function, or simply as an always backward-looking explanatory tool, instead of the "preanalytical" tool, a status which it should be accorded.

It is ominous, then, when some people who are ostensibly writing about what should be recognized as a "Minsky crisis," very quickly delivers what he thinks ought to be an "enlightened synthesis," that preserves the dominance of finance capitalism with only the skeletal controls of state intervention and regulation.[56] It is unclear just why, but a number of writers seem to see the wisdom of the Financial Instability Hypothesis, but *only* the FIH. Once they start digging in his policy recommendations and social theory, they quickly retreat or repudiate. For instance, consider the way in which Barbera explains Minsky's marginalization in his home discipline of economics: "…the marginalization of Minsky also clearly reflects Minsky's radical policy recommendations and the embrace of these decidedly left-wing directives by his academic followers. A large number of Americans, including this author, categorically rejects Minsky's call for socialized investment."[57] This is a strange lamentation indeed. Basically Barbera is saying that a decidedly heterodox economist was not terribly mainstream. So far, nothing new here, but what he seems to be implying is that if we merely gave up the heterodox aspects of his economic theorizing, be it to withstand the withering gaze of the Friedmanites or something else, then the theory would be more mainstream. Of course this is the very essence of the kind of synthesis that takes the force out of Minsky's theory that must be avoided, even for the sake of economic respectability. What we are left with from these

[56] Robert Barbera, *The Cost of Capitalism: Understanding Market Mayhem and Stabilizing Our Economic Future*, 1st ed. (McGraw-Hill, 2009), 5.
[57] Ibid., 9.

writers is a ringing endorsement of Minsky's analysis – except the part where he actually proposes ways in which we deal with his analysis of financial instability.

But at least writers like Barbera are upfront that they are both aware of Minsky's policy prescriptions and general vision of how he might construct a social theory, and are upfront about the fact that he rejects it. Other writers, on the other hand, are quite happy to use the FIH as an explanatory tool for how we are to understand the nature of the business cycle and financial capitalism, but do not acknowledge the body of work that Minsky put out that flows from that understanding. Instead we are merely asked to adopt the FIH as our de facto understanding of how the economy "works."[58] Even if one takes that relatively meager step, then what? We run up against the limit of using Minsky's analysis as a purely backward-looking descriptive device, and his concerns about managing instability poorly are more likely to come to fruition.

Instead of merely using one aspect of Minsky's analysis, or rejecting other areas of it outright, I will use Minsky's analysis as a preanalytical tool to best understand not only the cycles of finance, but on the very nature of crisis itself. This means treating Minsky as he treated Keynes. It is not a quest to find the one true, incontrovertible interpretation of Minsky, but rather to seriously undergo an analysis of his political economy, and see what kind of political, social or cultural theory emerges from such an analysis. To do this, we must go far beyond the "Minsky Moment," or his relative light undertaking in economic literature. We must go further to see Minsky's social vision laid out.

### 1.6 The Social Landscape of Financial Instability

The firms engaging in the various aspects of financial capitalism are never wholly engaged in hedge, speculative, or Ponzi finance. Rather, Minsky is clear that the statuses are

---

[58] Cooper, *The Origin of Financial Crises*, 158.

fluid, firms can easily shift from one to the other, and the general impact is not *that* there are certain kinds of finance happening, but the *proportions* of these kinds of finance. If there are more speculative than hedge firms, such an arrangement is less stable than the inverse, and obviously a high proportion of Ponzi firms are incredibly unstable. Stability breeds instability, and instability changes the decisions of long-term financial obligations, which prompts further instability. In Minsky's synthesis of Keynes and Schumpeter, it is clear that nothing is more certain than uncertainty; so much so that any helpful discussion of economics or finance must begin with that basic premise. This is a premise that orthodox economics simply will not allow for, assuring us that the *homines economici* who are making rational decisions will tend toward greater (if not perfect) efficiency.[59] This is not a trivial matter, and in fact changes the whole idea of what kinds of theory derive from this kind of political economy. Instead of asking how to greater maximize efficiency is a far different question than asking how to manage inherent instability. Setting up the financial instability hypothesis as the better way to look at how the economy functions is easy; moving beyond that is the difficult part, for numerous reasons. Epistemologically is that in financial analysis time does not stand still in order to gauge whether actors were being rational enough – but even if not, that does not matter because even bad decisions shape the decisions for tomorrow. The complexity of global cash flows and social relations that bring about various political, economic and cultural formulations may not be fully explainable in a concise way. Perhaps it is indeed the enormity of what the FIH demands of us that explains why many writers are unable to move into that realm.

Because Minsky framed the question thusly, and he took seriously the challenges of a complex global financial capitalism, his vision took a decidedly left-wing tack, since the state

[59] An example of such belief in orthodoxy can be found in Augar's 2005 *The Greed Merchants* where he asserts that the market is about ninety percent efficient. Where the number comes from is apparently left for the reader to deduce.

would need to use its coercive power in order to manage at least part of the productive process. Some writers, like Barbera, apologize for it by suggesting that his left-wing followers took his radical policy suggestions too seriously, seemingly to argue that the policies would be stronger, or at least taken more seriously, if his acolytes decided not to also entertain Minsky's ideas of social policy.[60] Another way of trying to dissociate Minsky from his politics is through biographical invention. Other writers including biographical information on Minsky will often point out that he was the son of socialists.[61] Very often though this is the only glimpse of political life that we are given for Minsky. I will suggest that his social vision was colored by his own left-wing politics, and that his commitment to a Keynesian/Schumpeterian liberalism was a matter of creating the best possible political economy given current constraints – in other words, when confronted with the uncertainty of a given social order, Minsky devoted himself to figuring out a political economy that not only worked, but toward providing a good life for its citizens.[62] His preferred political economy was not being performed, and so he performed in the political economy in which he was situated. I argue that this makes perfect sense in the same light that his analysis of money manager capitalism is not an endorsement of that mode of accumulation – in fact, it is clear that he was very troubled by it – but he set himself to trying to alter it from within those constraints. Endogeneity is unavoidable, it seems.

In an undated letter, Minsky writes a clarification to his security clearance application in order to set his political autobiography straight. Upon completion of high school and into college, Minsky joined a number of student groups, including the socialist Student's League for Industrial Democracy, the Young Peoples Socialist League, and the American Student Union. By

---

60 Barbera, *The Cost of Capitalism*, 9.
61 Perry Mehrling, "The Vision of Hyman P. Minsky," *Journal of Behavioral Economics and Organization* 39 (1999): 132.
62 Ibid.

1936, Minsky self-identified as a "Leninist."[63] Though he is quick to point out that he resisted the infiltration of Communist groups into campus life and had fallings out with all of these other associations, one cannot help but wonder whether all of his talk of "clean," uninfiltrated groups had something to do with the purposes for writing the letter. This is not to suggest that Minsky was some sort of Bolshevik all along, scheming to establish Soviet Communism in the United States. I only mean to make it clear that Minsky was not merely the son of socialists. He had a fully formed political history going back well into his youth, and during his tenure as an academic, his political affiliations and organizations continued. In light of this, we must not assume that the left has somehow hijacked Minsky, or that his political life was unimportant to his broader theories, or that he just happened to be born to a couple of socialists – these associations shaped his political vision.

Socialist, quasi-communist, liberal, or whatever, Minsky's involvement in political life endured throughout his academic career. He was involved with Americans for Democratic Action as well as being the faculty adviser Students for Democratic Action. His involvement as faculty adviser in various left wing student political movements was very much the reason why he left (or perhaps more accurately, asked to leave) his post at Brown University to go teach at University of California, Berkeley.[64] Often, biographical information on Minsky will omit the reasoning for why he left Brown, in one instance noting that a job offer at Berkeley simply "appeared."[65]

Throughout his engagement in the political arena, he was a member of various organizations (though he was fond of sending sternly worded letters for why he was quitting any

---

[63] Hyman P. Minsky, "Letter to 'Paddy'" (Archival, n.d.).
[64] Ibid.
[65] Mehrling, "The Vision of Hyman P. Minsky," 132.

particular organization – especially whenever George McGovern was involved, for whatever reason). While he was revising a draft to Americans for Democratic Action (ADA), he wrote, "'From each according to his ability'… remains a good rule."[66] For Minsky it is obvious that he was not an economist who cared strictly about formulating mathematical models into which he could force everyday life, he was looking at the world as he found it in order to make the best social life possible. So when he says that, "the cornerstone of economic policy must be the provision of employment for everyone willing to work," it is not simply his preferred fiscal policy of the Federal Reserve.[67] It is just as much a way for him to make a plea about how social relations themselves should be structured. By the time Minsky took up his post at Washington University, St. Louis, he had mostly given up his life as an activist. In fact, it is posited that the reason he left Berkeley to go to Washington was to reestablish a more traditional academic career, as his activism was short-circuiting a more productive intellectual output.[68] Even though he may have tempered his direct activism, Minsky was still concerned about the social consequences of fiscal policy.

Again, Minsky was following in the footsteps of the giant, Keynes. Keynes was concerned about the uncertainty of finance equating a casino economy, noting in *The General Theory* that "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."[69] The fear, reiterated by Minsky, is that the investment of the social surplus can be made incorrectly, to the deleterious effect to a country's citizens. From here we can loop back to why political economy is such a vital aspect of performing a properly critical analysis of financial capitalism. This is not strict mathematical

---

[66] Hyman P. Minsky, "Correspondence Between Hyman Minsky and the ADA" (Archival, 1976).
[67] Hyman P. Minsky, "Handwritten Note" (Archival, n.d.).
[68] Mehrling, "The Vision of Hyman P. Minsky," 133.
[69] John Maynard Keynes, *The General Theory of Employment, Interest and Money* (BN Publishing, 2009), 159.

economics – regardless of how the models say certain flows of capital are supposed to occur, these abstract models can have unintended, and sometimes awful, real consequences.

Minsky's task, when he attempted to do social theory, was to heed Keynes, and try to envision a way in which to not become a bubble on the famous "whirlpool of speculation;" in other words, not to do an ill job. His concern was not some ideological fealty to a particular group he had been a part of as a student or as a professor, it was not whether capitalism was the best, desirable, or somehow most pure form of social relations. Minsky's attitude toward capitalism was much like Schumpeter's, when he tersely said that it was "uninteresting" whether he thought capitalism could survive (though as a financier, he did come to the conclusion that it could not).[70] Schumpeter had this attitude because what was always more important to him was not ideological preference or purity, but having the vision to say something about the direction of social relations. In the same way, when Minsky moved on to be a distinguished scholar at the Levy Economics Institute at Bard College, he devoted himself to a diagnosis of the new social order that did not include Soviet communism. Having spent a great deal of time trying to persuade people of the inherent instability of financial capitalism, this new state of affairs presented Minsky with a unique opportunity to say something about how capitalism could "work;" not simply defend itself, or survive against, Soviet communism.

His social vision, with capitalism firmly in charge, and socialism in the "dustbin of history," became a matter of understanding how capitalism could be created in "third world" countries, reformed in advanced industrial countries, and be made to work in former communist

---

[70] Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy: Third Edition* (Harper Perennial Modern Classics, 2008), 61.

countries.[71] Again, this is not a question of preferred ideology to capitalism itself, or lamenting the loss of socialist nations in the globe (though he was always careful to refer to the existing socialist models strictly as the "Lenin-Stalin" models). This makes sense; given the fact that Minsky believed that the framework of a given economy was contestable. Minsky was concerned, although seemingly not surprised, with capitalism's inability to really take off after its main competitor had fallen by the wayside, noting that "it almost seems as if… The United States needed the cold war to perform in a satisfactory way."[72] As I will discuss in the next chapter, taking up a Minskian critique of economic theory, the United States entered what I call a bizarro-Keynesian warfare state. It is Keynesian in that after World War II, the share of capital was reduced and part of that was distributed to the newly emerged middle class. It is bizarre in that this did not result in socialized investment on the part of the public, but on a massive slushing of the social surplus into military adventurism. The Cold War provided an enormous outlet for this surplus to valorize without really threatening capital's relative share of the surplus. So for Minsky, the solution is clearly not capitalism as such – an idea Minsky often scoffed at, belittling such ideological simplicity by saying in numerous places that there are as many variants of capitalism as Heinz has pickles. The form is negotiable, the effects are real, and the society it creates is important.

Minsky took seriously this social vision, which essentially was the foresight to deduce what his fiscal policy suggestions might bring about. Minsky was enamored of Keynes' concept of the euthanasia of the rentier, which is simply reducing capital's share of the social surplus via socialized investment. The idea is that when capital development has reached a point where

[71] Hyman P. Minsky, "The Economic Problem at the End of the Second Millennium: Creating Capitalism, Reforming Capitalism, Making Capitalism Work" (Hyman P. Minsky Archive. Paper 101, April 29, 1993), 10, http://digitalcommons.bard.edu/hm_archive/101.
[72] Ibid., 6.

capital itself is no longer scarce, then people will be able to turn away from economic development and go into arts, culture, and other areas of civil society.[73] Minsky brings up the specter of Veblen by suggesting that generalized "conspicuous consumption" only leads to the desire for more capital development, but in a private and not social way, thus continuing the scarcity of capital *ad infinitum*; a blind spot of Keynes which Minsky attributes to Keynes' personal sensibilities; a simple act of political wishful thinking on his part.[74] Capitalism did not have to, and indeed did not, proceed along the lines that Keynes preferred it to. The question of why is hardly taken up in Minsky's writing even though he is aware of it; an attempt will be made in this research project to do so, with explicitly political and social categories of analysis. This is more than just conspicuous consumption, but rather an economy of excess that compelled labor, which had just won a share of the surplus after World War II, to give it to the money managers in order to be "better" valorized.

The evolution of capitalism does not mean that we should jettison Keynes' ideas, of course, but Minsky offers an updated vision for what the social results would be for certain kinds of capitalism in industrialized countries. Minsky argues for a guaranteed minimum income through establishing the federal government as the employer of last resort, a Federal Reserve whose directive is (once again) full employment, not just altering the prevailing rate of interest, and direct transfer payments in order for a "good" financial society to achieve its goals, delivering a standard liberal agenda for how to achieve such a society: strong trade unions, education, infrastructure, transportation, etc.[75] Doing so would yield the best result, but, perhaps sensing the neoliberalism/globalization/free trade trend of the 1990s (though Minsky did not

---

73 Minsky, *John Maynard Keynes*, 152.
74 Ibid.
75 Hyman P. Minsky and Charles J. Whalen, "Economic Insecurity and the Institutional Prerequisites for Successful Capitalism" (The Levy Economics Institute, Working Paper 165, 1996), 11.

often use such words), Minsky saw two general paths for capitalism to take: his preanalytic vision saw “shared prosperity” capitalism or “fortress capitalism.” In the former, there are institutional pillars put in place to guarantee this liberal program, and in the latter, the fortress analogy is basically the retreat into gated communities that would result from a return to laissez-faire economic policy.[76]

Much in the same way that Minsky gently chided Keynes for being too much of a product of Edwardian enlightenment when Keynes suggests that people will turn to art after sufficient capital development, it is clear here that Minsky falls into a different analytic trap: he is prone to assume the detached and above-it view of macroeconomics. To be more specific, he ends up making his own effort of political will, that these institutions can be restructured to meet and protect the needs of people with the right kind of oversight – which all seems so simple when looking at society as an amalgamation of institutions from a god’s-eye view. This is unfortunate, particularly because Minsky is usually so careful not to downplay social complexity, but he still occasionally merely wishes to reconstruct society whole cloth through institutional governance and keen bureaucratic policymaking. It is clear that advanced industrial democracies, at least since Minsky’s death in 1996, have been making a mad dash toward fortress capitalism, but there is also no reason to assume that if these institutional frameworks were in place that it would instantly switch to shared prosperity capitalism – after all, it was the socialized effect of investment from the New Deal that brought money manager capitalism into being in the first place.

Minsky’s preanalytic social vision based on the uncertainty of financial capitalism nevertheless serves as an exceptional starting point for an understanding not only of the crisis of

[76] Ibid.

2007 but crisis itself.[77] Even if we must take a departure where he begins his institutional and macroeconomic wishful thinking, the FIH and the ensuing stabs at social theorizing make for an opportunity to pull Minsky's political economy out from marginalization, misinterpretation, and use it to construct a social critique of the current stage of financial capitalism. The following analysis will present each of the possibilities of political economy listed at the beginning of this chapter, building upon the possible definitions to then mount a defense of the relative strength, points of departure, and political possibilities of the final definition.

[77] This dissertation will also problematize just when the "crisis" began. Economic literature will discuss a mortgage security crisis in 2007, but will not admit a general crisis until 2008 or 2009.

**CHAPTER TWO: The Poverty of Economic Theory**

The first possibility Minsky lists in his definitions of political economy is stated simply: "Economics." Unfortunately, there was no elaboration after this, because it can be a tricky proposition to deduce just what, exactly, that means. Surely this means something beyond the Greek etymology of household management (and indeed, the false equivalence between a household and a sovereign state will come to bear in chapter five). It is probably a good guess that he means the academic discipline of economics, but even then, the difficulty does not dissipate; what "counts" as economics and what methods and truths one accepts is just as vital as the actual use of the discipline itself. Trends fall in and out of fashion, or are hotly contested, a prime example being austerity measures in the current crisis.[1] There is no single hegemonic discourse of what economics is and what it must do, and different schools of thought within the discipline shift in and out of dominance, depending on circumstances. To further complicate what it means to pursue "economics" is the complicated relationship between the academic discipline and the business world. If there is overlap – that is, if academic economics are adapted in business, this does not guarantee a certain performance of that usage. A famous example, especially as pertains to financial instability, is the Black-Scholes-Merton theorem. Developed by academic economists to assess the risk, and thus the price, of options, it was quickly adopted by financial firms.[2] The performativity of the theorem is the key to understanding the relationship between academic economists and the business world they are ostensibly able to

---

[1] The impulse toward austerity in times of crisis is itself nothing new. However, austerity has taken such hold that some news sources seem to suggest that the fate of the world is in the hands of successful implementation of austerity measures. See Gongloff "No More Austerity, Please, We're Greece" Wall Street Journal's MarketBeat, September 2, 2011, where he notes that all "sentient" beings were hoping Greek austerity measures would make the "universe safe again for democracy."

[2] Donald MacKenzie, *An Engine, Not a Camera: How Financial Models Shape Markets* (The MIT Press, 2008), 20.

explain. The adoption of the theorem did not "prove" that the theorem was true, but performing the theorem made the theorem true, as option prices were modeled after the inputs that the theorem called for.[3] When the conditions that Black-Scholes-Merton called for were not present, however, the theorem stopped performing.[4] The theorem therefore worked until it stopped working. This displays the tenuous relationship between economics and the business world: the business world can be performed in such a way as to seemingly validate the models coming out of academic departments, but the course is never smooth. It also echoes Veblen's analysis from the last chapter, that business, at the end of the day, is concerned with making a profit by selling commodities. If adopting an academic model gets those profit flows, so be it, and if not, then they will do something else.

Since the business community has the ability to perform according to market models, dominant strains of economic thought within the discipline do well to favor certain classes in society – investors or money managers, for example – and marginalize others.[5] This is not due to any kind of insidiousness, but rather a way to maintain relevance in the current context. However, depending on what is happening outside the discipline, and in particular, during a crisis, economics may need to engage in certain conceptions of the social. After all, during crises, economics can quickly become a morality play, complete with condemnations of "moral hazard," used mostly as an excuse for why the economy failed to perform in the way that was predicted.[6] In another vein of the discipline, economic historians step in to show the rest of the

---

[3] Ibid.
[4] Ibid., 201–2.
[5] Here there are many intellectual histories tracing the dominance of certain kinds of economic thought. Minsky himself was fond of the dominant economic school reflecting production. In other words, his understanding of the shift from managerial to money-manager capitalism reflects the push in the Reagan administration to secure financial profits (see Dumenil and Levy 2011).
[6] Emmnauel Farhi and Jean Tirole, "Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts," *American Economic Review* 102, no. 1 (2012): 60–93.

world how this has all happened before, like the recent volume from Reinhart and Rogoff'[7] or the classic text from Kindleberger and Aliber.[8] They might also seek comfort in hunting out the bad apples, whose irresponsible or greedy actions led to this mess in the first place. Conversely, during booms, the social can be manifested as the towering triumph of self-interest that validates highly elite technocratic tinkering, with the newly emerging globalizing world and its insecurities becoming a good thing for those in it.[9] Indeed, one sees sub-disciplines within the discipline, from the history of economics to reaching back into the past to find patterns in fluctuations through the use of econometrics. Economics, it seems only dabbles in the social only when looking for a scapegoat for why the machine stopped working, be that imperfect, irrational, or otherwise mendacious human actors; otherwise it celebrates the unraveling in a quasi-Schumpeterian triumph of "creative destruction."

All of this is not to say that there is something special about economics in this respect. Like any academic field, the intellectual terrain of the discipline entitled "Economics" is not smooth. There are choices to be made, however, such as whose economics do we consider? What makes economic data "correct?" Is the Keynesian Cross any better, worse or different than Tobin's *q*? Even supposing the practitioners of the discipline were to come to a kind of consensus, the difficulty is still not overcome, however, especially if we take our respect for heterodoxy and critique seriously. In many other disciplines, the terrain of negotiation can be clear, and various strands of thought come out of differing theoretical propositions.

---

[7] Carmen M. Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*, Reprint. (Princeton University Press, 2011).

[8] Kindleberger and Aliber, *Manias, Panics, and Crashes*.

[9] There is much of this kind of hyping literature, but I would argue that one could do no better than consult Richard Florida's *Rise of the Creative Class* (2003). This tome celebrates labor precariousness, lateral career moves, and constantly uprooting ourselves from embedded communities. Sure, globalization will someday get us to Valhalla, but for the time being, workers should embrace the challenges of upset social relations.

Economics, I argue, as an academic discipline, attempts to deny such tumultuousness of ideas, even as it simultaneously acknowledges a pretty severe sectarianism, even if the consequences of that sectarianism are overblown in popular discourses.[10] The relationship between academic economics and the economics observed in the business/financial sector becomes a hindrance to pursuing a political economy, as it is either reifying business/financial relations, or apologizing for how those same relations are degrading the social relations of citizens. I argue that economics has taken itself out of its proper realm of a social science and into the realm of mysticism, attempting to divine the universal law of markets. At that point, there is little room for theorizing, and what passes for theorizing becomes impoverished, e.g. a "theory" becomes nothing more than a "model." This attempt to hermetically seal the discipline from the lived world when it can, and only engage with some thinly devised conception of the social as a series of models with generous caveats is a poverty of theory because it lacks a Schumpeterian "preanalytic" vision. I will make this exposition in the following order: critiquing economics' attempt to move into the category of the universal and how that attempt emptied out the category of economic theory, the messy and strange ways in which such universal attempts at economics interact with the lived world, and finally why a properly social contextualized approach will yield a far better, and perhaps less antiseptic and scary, way to talk about "economics." Doing so prevents the analytically impotent corroboration with the business world, and the theoretically deficient apologias for the lacking qualities of market actors.

## 2.0 Economic Theory, Such As It Is

Before attacking the discipline of economics, it is important to remember that this critique is aimed exclusively at the hegemonic orthodoxy of academic economics, and the

[10] The most visible example being the difference between the "salt water" (ostensibly Keynesian) economists of Harvard and Berkeley, and the "fresh water" (ostensibly Austrian) economists of the Chicago school.

analysis will be grounded on its own terms. For purposes of getting at the theoretical content of the discipline, for the time being I will bracket the performativity of the economy as business/finance/banking pursues. As the MacKenzie analysis above argues, the performance of the economy is the only justification needed in such realm. This analysis will also not mean to suggest that all academic economics functions only to justify the business world, abstract their models to the point of unreality, or that there are those among the baptized who do not view their role as economists in a social light. Economics could (and political economy might ethically mandate that) there be a view toward the world as we find it. Ironically, this realm might very well be the strongest case economics has to its institutional dominance among social sciences – they make an analysis, see how it works in the real world, and judge accordingly, with all the proper Kuhnian caveats, of course, of how the world is messy, subjects confound their own "rational" choices, and so on in case things go awry.

This discussion of theory, however, is not dependent upon which variant suits the subject as a preferable ideological worldview. Rather, we must interrogate just what we expect theory to do for political, cultural and social theorizing. While this of course matters in economics, I will draw my argument from what we expect theory to do from E.P. Thompson's polemic against Althusser, to argue against theory as a void category, or a necessarily immaterial category that does not need any justification in the world as found.[11] This is important, because as I am about to show, orthodox economic methodology tends to treat theory as a void category into which to pour empirical data, or a weak ontological system of relationships so we become less confused in our analyses. To echo Thompson's critique, a great deal of political economy has happened since

[11] E.P. Thompson, *Poverty of Theory* (Monthly Review Press, 1978), 14.

Adam Smith and Ricardo, and a great deal of history lays at our feet for analysis. How else are we to understand the world if not through theory?

The strength of the theory, however, is not simply in its predictive capacity, which would be merely observation. Neither for the fact that the social world makes for a terrible laboratory, in empiricist terms. Having an idea about the way the world works – or ought to work - does not automatically establish a theoretical acumen. This seemingly reasonable line of thinking can be at odds within dominant strains of economic theory. Milton Friedman[12], a good representative of the dominant positivist paradigm in academic economics, suggest that, "The ultimate goal of a positive science is the development of a 'theory' or, 'hypothesis' that yields valid and meaningful (i.e. not truistic) predictions about phenomena not yet observed."[13] He defines neither valid nor meaningful, which robs his argument of much strength, but ostensibly, he means that a theory must have some predictive capacity.

His weak stance on what Friedman expects a theory to do is understandable based on the importance he attaches to the idea:

> Viewed as a language, theory has no substantive content: it is a set of tautologies. Its function is to serve as a filing system for organizing empirical material and facilitating our understanding of it; and the criteria by which it is to be judged are those appropriate to a filing system. Are the categories clearly and precisely defined? Are they exhaustive? Do we know where to file each individual item, or is there considerable ambiguity? Is the system of headings and subheadings so designed that we can quickly find an item we want, or must we hunt from place to place? Are the items we shall want to consider jointly filed together? Does the filing system avoid elaborate cross-references?[14]

---

[12] This analysis of Friedman will shy away from his forays into the political and public policy and focus exclusively on his account of methodologies of positive economics. The other reason I have selected Friedman is that he and Minsky traded barbs in the annals of the American Economics Association Journals, and will thus provide a good account of the dominant orthodoxy that a Minskian analysis seeks to counter.

[13] Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1966), 7.

[14] Ibid, 7.

While Friedman's' prose, at first glance, is somewhat comical as it relates to the current context, in which Wikipedia would be the greatest theoretician to have ever existed, we must consider what he is saying on its own terms: that theory is nothing more than a language; a tautology, devoid of meaning. It is nothing but a weak ontology that helps us from confusing areas of analyses, perhaps keeping us from trying to drive fish or filet cars for dinner.

It is worth taking a moment to consider the benchmark that Friedman has set in this analysis. Predictive capacity, not the lived experience of a kind of political economy, is what makes a theory valid. He continues: "Its performance is to be judged by the precision, scope, and conformity with experience of the prediction that it yields."[15] Minsky's emphasis on focusing a political economy on the world as we find it, and my insistence that we perform the economy in our everyday lives, is thus denied. Indeed, Friedman's derision for an attitude turned toward the world leads him to conclude that not only is theory *unable* to be realistic, if it is an important theory it *must* be unrealistic. Friedman is not being coy when he writes that "Truly important and significant hypotheses will be found to have 'assumptions' that are wildly inaccurate descriptive representations of reality, and, in general, the more significant the theory, the more unrealistic the assumptions."[16] While this seems problematic at first glance, Friedman's justification for this analysis is that theory must have a lot of explanatory power, and that any attempt to get the theory to match the real world would get bogged down in things like the eye color of wheat traders, and we would become less concerned with whether the theory would do a good job explaining what it purported to do.[17]

[15] Ibid, 4.
[16] Ibid, 14.
[17] Ibid, 15.

At this point, we run directly into an ontological conundrum. It is unclear from Friedman's analysis just where he derives his categorical positions about which phenomenon which theories are attempting to explain. Perhaps the filing system, properly ordered, should force theory to do what Friedman wants, but it is unclear just how one is supposed to file their theory-cabinets in the first place. We are left with a snake beginning to eat its own tail: theory must establish its truth-value in the real world, but it must contain unrealistic assumptions lest it be too a useless mirror of the real world. As will be gone into greater detail below, Friedman's own economic theory of the importance of the quantity of money, falls into such a trap. He is right that there are wildly unrealistic assumption about the quantity of money as evidenced by the data maintained by the Federal Reserve, making his theory lack predictive capacity – yet it seems he is arguing that nevertheless, it is that unrealistic assumption that gives it theoretical strength.

If this line is followed to its logical conclusions, we are left with a positivist science that gets it completely backward. If we take Friedman's analysis to mean strictly that a theory is a prediction about the way the world works: and how the world works is thus a telling indicator of the validity of the theory. But if this is all he means, his definition of theory means nothing: it simply means describing the world accurately. Indeed, if it were that simple to do, theorists might have to consider other lines of work. There is, implicit in Friedman's comments, an analytical trapdoor. Here is where an orthodox economist might appeal to social complexity. The theory, having been disproved by not yielding the proper experience in the real world, does not necessarily invalidate the theory because the world is too complex, or imperfect, or simply did not fit the model they were using to test the world. This is where economic theory becomes impoverished. Instead of using the complex social world as the *basis* for meaningful analysis of a society's political economy to formulate a theory for things like social provisioning, or organizing production to maintain social relations, it is instead often used as an *excuse* for the inaccuracy of the positivist impulse in economics.

Eventually, Friedman gives in to the use of his own trapdoor, when he suggests that:

> In so far as a theory can be said to have "assumptions" at all, and in so far as their "realism" can be judged independently of the validity of predictions, the relation between the significance of a theory and the "realism" of its "assumption" is almost the opposite of that suggested by the view under criticism. Truly important and significant hypotheses will be found to have "assumptions" that are wildly inaccurate descriptive representations of reality, and, in general, the more significant the theory the more unrealistic the assumption.[18]

From this selection, we see how orthodox economics tries to have it both ways. A theory must yield observably predictive results for the sake of utility, but deviation from reality is what makes a theory important in the first place. Friedman gets the second part right, but improperly uses it to mean that theory can be excused for not doing what he argues a theory ought to be doing in the first place. In other words, theory does not need to be beholden to the data, yet it cannot simply decide to divorce itself from reality if it inconveniences diagnoses. While it is also true that any theory contains a number of assumptions, to suggest that these assumption by themselves create a whole new livable world is absurd.

When Friedman defends the dominant variation of positivist economics by way of suggesting that no economic theory has ever really suggested that the world operates as perfectly as their models, he has a good argument.[19] The problem, however, is that the extends beyond the small good point that he makes, that economists like Marshall indeed never did argue that the world operated perfectly according to models. Friedman overextends his argument when he critiques the views of heterodox economists Chamberlin and Robinson that their critiques of

---

[18] Ibid.
[19] Ibid, 30.

general equilibrium theory fail to form a more general theory of economics because they only succeed in proving and refining the original theory.[20] This is an interesting analytical trick Friedman attempts to maneuver here. Alternative theories from those who are heterodox are not *actually* critiques at all – they merely show the opportunities for orthodoxy to refine and perfect itself.

There are many ideological assumptions at work here, of which Friedman seems blissfully unaware of none. We can begin by challenging his very conception of theory. If it is simply a filing cabinet that helps us ask the right questions for the right categories, whose ontology sets the categories? This does not even mention the political consequences to asking the wrong questions or using the wrong categories. Going back to the text, however, Friedman shows his ideological cards, though he does not explain it as such: "Economics is a 'dismal' science because it assumes man to be selfish and money-grubbing, 'a lightning calculator of pleasures and pains, who oscillates like a homogenous globule of desire and happiness under the impulse of stimuli that shift him about the area, but leave him intact.'"[21] If Friedman is right, then the basis for the dominance of his brand of positivism in economics makes sense because it seeks to reify liberal politics. Friedman here is clear that he assumes the very essence of the discipline itself is the same as marginal utility theory. If he is correct about this assumption, than of course all attempts to do economics merely refine marginal utility analysis. And similarly, if one never asks whether we ought to, or why we make these kinds of assumptions about economics, then any attempt to critique marginal utility seems like a fool's errand indeed.

This uncovers the ideological streak that informs Friedman's writing on methodology. His essays have striking little to do with method (he argues that the experimentation is more or

---

[20] Ibid, 37.
[21] Ibid., 19.

less the same as the natural sciences), and he does not offer a systematic glimpse as to how a person practicing economics asks questions or formulates hypotheses. We are instead expected to accept the gospel of marginal utility; at which point the formulation of theory really does become a tautology. There is nothing else it could possibly be. This dominant hold on what Economic theory means has the immediate effect of marginalizing heterodox theories, the most notable in my analysis, of course, is Minsky's Financial Instability Hypothesis, discussed earlier. If we accept Friedman's methodology, which boils down to that general equilibrium is naturally the tendency of economics, then when Minsky takes aim at that orthodoxy by suggesting they are unable to explain depressions or lack a coherent world vision of instability,[22] the orthodox response would be to politely thank Minsky for pointing out that the general equilibrium is indeed fickle and the path to harmony might be a little bumpier than first imagined, but things will work themselves out, surely. The Financial Instability Hypothesis, as I have argued earlier, is antithetical to equilibrium seeking theories, and this attempt by dominant orthodoxy in economics weakens it. The result is that mainstream "post-Keynesians" like Paul Krugman have little to say about Minsky or the full force of the FIH: "There's a deep insight in there; both the concept of financial fragility and his insight, way ahead of anyone else, that as the memory of the Depression faded the system was in fact becoming more fragile."[23] Krugman's limited use of the FIH to simply mean that the United States collectively forgot about the depression, allowing increasing fragility has little to do with the FIH as Minsky puts it. We should not be surprised,

[22] Hyman P. Minsky, *Stabilizing an Unstable Economy*. (McGraw-Hill, 2008), 116.
[23] Paul Krugman, "Actually Existing Minsky," *The Conscience of a Liberal*, May 19, 2009, http://krugman.blogs.nytimes.com/2009/05/19/actually-existing-minsky/.

then, that Minsky is nowhere to be found in Krugman's book that purports to remind us of the lessons of the Great Depression in the United States.[24]

Eventually, a person like Friedman, arguing for positivism in economics must indulge in some empirical argumentation, especially for one who has such a strong disdain for what he believes theory to be. Because the subject at hand is the father of monetarist thought in economics, he does use his quantity theory of money as an explanatory tool to explain inflation. He states: "Perhaps the most obviously important example is the evidence from inflation on the hypothesis that a substantial increase in the quantity of money within a relatively short period is accompanied by a substantial increase in prices. Here the evidence is dramatic."[25] We can, for the time being, table the fact that Friedman neglects to tell us just what "inflation" means, and although we would be correct in assuming he means it in the orthodox sense to mean a rise in prices, this is in dispute from some heterodox economists.[26] But in the spirit of performing economics according to Friedman's dictates, let us examine the relationship between the money supply (M2) and the standard measure of inflation, the consumer price index (CPIAUCSL):

[24] Paul Krugman, *The Return of Depression Economics and the Crisis of 2008*, Reprint. (W. W. Norton & Company, 2009).
[25] Friedman, *Essays in Positive Economics*, 11.
[26] Joan Robinson, for one, in her article *What Are the Questions?* (1977) lays out a Keynesian vision of inflation that is not due to rising prices, but rather from the perils of full employment: meaning that at full employment, workers might bid up their wages too high, outstripping the pace of growth, indicating that inflation can just as well be a political problem (1329).

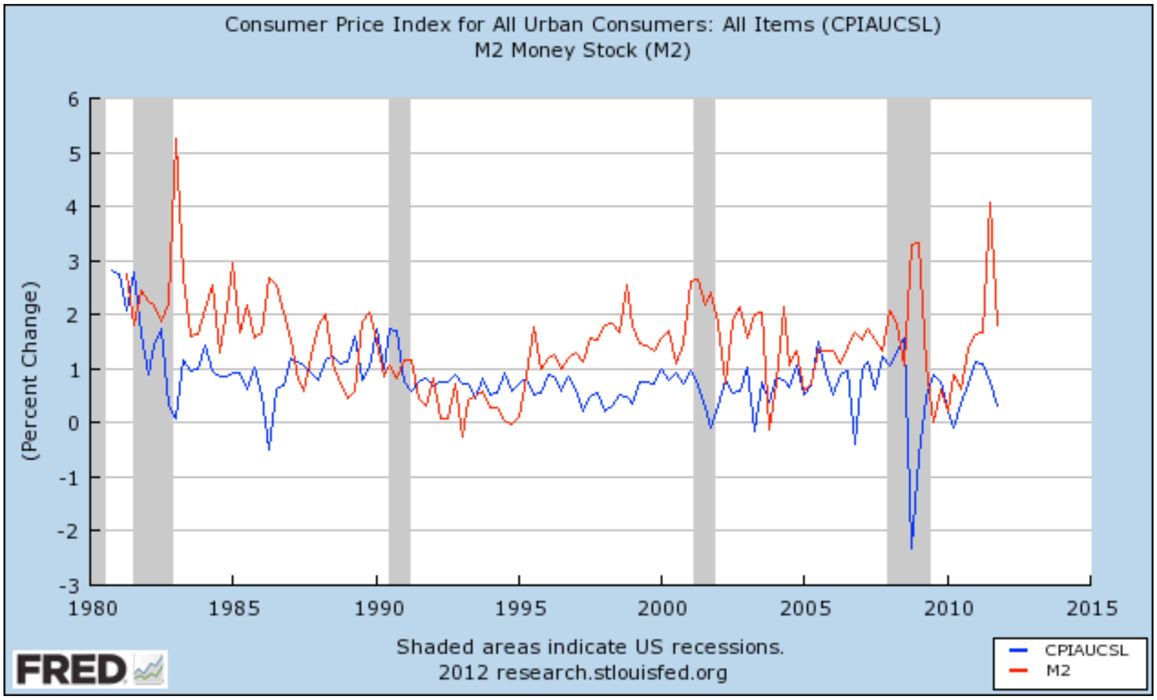


**Figure 1: Inflation and the Money Stock (Percent Change)**

This figure generated from the research tool of the St. Louis Federal Reserve branch indicates that Friedman's theory of quantity money explains very little. The relationship begins at 1980, because that is as far back as M2 data go.[27] It is worth taking the time to note what exactly the variables are supposedly telling us. M1, or money one, is cash, traveler's checks, and checking accounts; M2 is M1 plus savings accounts and small time deposits along with money market funds; M3 is supposed to take into account the inner workings of the financial sector, where one assumes the derivatives balance sheet assessments lurk.[28] It is thus interesting to note that M3, which is supposed to represent the broadest definition of money in the economy, and one might argue in a financial crisis is most important, is no longer published as of 2006.[29] Whether this is because M3 is growing at a much faster rate than M2, thereby indicating a runaway inflation or

[27] It would seem to violate his own version of empiricism, then, to try to explain the Great Depression in terms of a lack of money, since those data were unavailable.
[28] Kevin Phillips, *Bad Money, Reckless Finance, Failed Politics and the Global Crisis of American Capitalism.* (Viking Books, 2008), 111.
[29] Ibid, 88.

because the amount of money *simply does not matter* is an important methodological question, which Friedman's methodology does not tell us anything about. If money is endogenously created, as Minsky suggests, that means anybody can make money (or a promise to pay money later), then there is nothing the central bank could do to precisely manage the money supply in a way that Friedman would like. If it is not inflationary then, this raises the question about what the CPI is supposed to be telling us. If inflation is a rise in prices, then we must consider which prices are rising in the basket of goods that are included in the prices.[30] Phillips even digs into government attempts at measuring "hedonics," or how much money we enjoy goods. There is also a marked difference between core inflation of durable goods and the headline inflation of things like food and energy, although even the Federal Reserve is not sure what to make of that difference. Some research economists argue that headline inflation is the better of the two since that is the kinds of general price rises that people feel: food and energy.[31] Others argue that neither headline nor core, nor indeed any combination thereof, does a very good job predicting the prospects of medium-range inflation.[32] The point of this brief discussion about the data the variables are purporting to tell us are important, because there are problems with M2 and CPI. I bring them up to show, however, that Friedman's supposed methodology does not give us a critical vocabulary for which to tell if what we are looking at is actually true. His attempt to use methodology as a cudgel to silence dissent in economics leaves us little room for critique. So we must soldier on with the variables as we find them.

In the above graph, we see a percent change in M2 and CPI compounded quarterly. Friedman is also clear above that the more money that is released into the economy, the higher

---

[30] Ibid, 84.

[31] James Bullard, "Measuring Inflation: The Core Is Rotten," *Federal Reserve Bank of St. Louis Review* 93, no. 4 (August 2011): 224.

[32] Daniel L. Thornton, "Core Versus Headline Inflation Again" (Economic Synopses Number 16, 2011), 2.

prices go, ergo the higher the rate of inflation. Yet the data tell us this is the opposite of what happens. Especially considering the shaded areas, indicating recessions, we see a sharp uptick in the money supply accompanied with substantial deflation (particularly in the current crisis). Does this mean there is no inflation? As I have stated, perhaps it is being wished away through official statistics. But since Friedman's methodology does not allow for such a possibility, we must conclude that his hypothesis is incorrect, and his theory is incredibly unrealistic, or, as he might put it, *false*.

We must be able to discuss economics, but not as Friedman seems to desire, where it is merely a policy prescription from the filing cabinet of the dominant orthodoxy, where preferences for certain policies take the place of a rigorous analysis of whether certain policies achieve their stated goals. It is clear that dominant positivist economics is attempting to elevate itself to a "natural" science, free from having to justify resulting social relations. Friedman suggests that the social itself is not a bad substitute for a scientist's laboratory.[33] The next section of this chapter will display how such an attempt to move economics to a natural or "universal" science has long been the goal of orthodox economics, well before – and indeed well after – Friedman.

## 2.1 The Move to the Universal, or "Physics Envy"

I do not want to suggest that economics is not a science. Of course it is, in an etymological sense of the word, the discipline seeks to know something about the world, even if some orthodox analysis seems to think that theory must be unrealistic to achieve this goal. The problem is when there is an attempt to shift a base of knowledge from "a" science, to "the" science. This is not something unique to economics; other disciplines have taken their turn on the

[33] Friedman, *Essays in Positive Economics*, 10.

Queen Science throne as well. What I do want to suggest, however, is that economics as a discipline has been seeking its legitimacy through an appeal to universality. That is to say, it is trying to make its laws as unchanging, and not the result of social and power relations, as it perceives other sciences to be, thereby effectively absolving the discipline of any responsibility to account for social complexity. Such social complexity is considered "noisy," so the move to the universal is an attempt for the discipline to move beyond such noise and get to the essence of the science. The basis for this argument comes out of Mirowski, who argues that, "…Western economic thought was dominated by an effort to reduce economic value to a conserved substance in motion, and thus consequently to elevate moral philosophy and political economy to the status of a natural science. It was not simply a case of envy or misplaced obeisance…"[34] It is clear that the envy Mirowski is talking about then is not one based out of mere inadequacy, although perhaps that does play a part, but of an attempt to shoehorn the discipline into what was conceived of as part of the universal law of the conservation of energy. In other words, if physics successfully made the leap to the universal, then why not economics?

Mirowski's social history of both physics and economics opens up a theoretical space that makes the evolution of economics from what used to be called political economy clear. Since political economy was, with its inception in Adam Smith, a moral science as much as a science of production, distribution and consumption, the break into a separate discipline of economics represents such a move away from moral philosophy and the social conditions that make certain political economies possible. One does not have to stretch the imagination to see how tantalizing the prospect is for economics. If one were able to uncover the unchanging universal truths behind economic "laws," then one would be perfectly justified in having

[34] Philip Mirowski, *More Heat Than Light: Economics as Social Physics, Physics as Nature's Economics* (Cambridge University Press, 1991), 185–6.

Friedman's attitude toward methodology, critiqued above, with the resulting social relations being equally natural.

The first half of Mirowski's *More Heat Than Light* is devoted to such an evolution in scientific thought – the conservation of energy in motion – and how indeed the discipline of physics is moving away from such an equilibristic model, while at the same time economics is maintaining its equilibrium seeking foundational theories. In fact, the very thesis of Mirowski's book is that economics got to where it is today due to an unyielding faith in a (mis)interpretation of a metaphor about energy conservation that the sciences which they are aping have long since done away with. The stakes of such a misinterpretation are not clear until Mirowski lays out why such an attempt is socially important. Mirowski is clear that the very impulse of the conservation of energy school was an attempt to unify all knowledge under its auspices in a cohesive theory of everything, so this is not merely a story about the misapprehension of the metaphor by a certain discipline, but rather a critique of attempted scientific unity through a metaphor.[35] So the question becomes why this kind of mimicry still exists in economics and why the explanations that provide are still largely persuasive to many people. Holding onto the idea that all things lead to the Good might be a more comforting thought than confronting the fact that we must do the hard work of renegotiating social relations to bring about the political society we desire to see. Thus the attempted move to the universal by economics has little to do with its Kuhnian content and methodology, but was rather an ideological turn, which is then used to reify liberal political society.

Mirowski's analysis is especially useful because it provides the basis for just how pervasive the use of mathematics and physics to naturalize/universalize the discipline has

[35] Ibid, 392.

become in economics. The mathematization of social science is not a phenomenon felt strictly in economics departments, but the mathematics that emerges from physics envy and equilibrium-seeking assumptions can shed some light on why certain mathematical formulae are pursued. The preferred equations in economics, of course, maintain such a commitment to equilibrium. I will consider this famous equation to make this argument: MV=PT:

> That is, in one period, typically a year, the amount of money in circulation (M) times its velocity of turnover (V, or the number of times these units of money are spent) equals the sum of the prices (P) times the number of transactions (T).[36]

There is an undeniably attractive logic in this. Money, and the speed with which money changes hands, reflects the sale of goods at certain prices, and vice versa. If this equation were true, it could really simplify economic philosophy – the amount of money tells us everything we need to know about production! We might engender a little sympathy toward Friedman's position about the money supply at this point; after all, if it has this much explanatory power, then perhaps it can be wielded in all areas of economic life. It goes without saying then, recalling the previous discussion of monetarism earlier, that this equation is sacrosanct among their ranks. Through the use of some basic algebra, any one of those particular variables can be told, in and in turn, tell, us about the other variables.

Assuming that MV = PT though is just that, an assumption. In Henwood's analysis, the reality of this balancing act involves the heroic assumption that the equation has to be true. PT is simply reported as GDP (which may have its own measurement problems) some denomination of money supply is used, and velocity algebraically deduced by solving for V in the equation.[37] The preferred truth of monetarist doctrine is visible here: money and how often that money changes hands tells one everything one needs to know about the productive capacity of the

---

[36] Doug Henwood, *Wall Street: How It Works and for Whom* (Verso, 1998), 191.
[37] Ibid.

economy, the GDP. If GDP is lagging (below the mystical "natural" rate of growth), then according to this equation, one must simply release a torrent of money into the economy and make easy the conduits for that money to change hands – after all, these two things must necessarily boost GDP. Social relations, political structures, heterodox rationalities – none of these things are used as explanatory tools.

This might be fine and well enough, if mathematical equilibrium economics was able to fully bound and define its discrete variables, but this is simply not possible. As Henwood indicates above, velocity is a notoriously difficult measurement to pin down. After all, how could we possibly know how many times a dollar bill passed hands over the course of a set period of time? This is not to suggest that velocity is unimportant. Having a one-dollar bill change hands twice is equivalent to having two dollars in circulation – which then might have an effect for inflationary pressures as understood in the orthodoxy. With the increasing reliance on electronic transfers, this can only make the task of keeping track of velocity more difficult. This critique is only to say that measurements of velocity are necessarily reductive and not nearly as precise and elegant as the neoclassical equilibrium models would like to present themselves. After all, the only way we could truly know the velocity then, is by knowing the other variables and then simply dividing GDP by the money supply. Thus this equilibrium-seeking model is the foundation for quantity money economics theory, a vital strain of thought in the orthodoxy.

There is even a further confounding factor when considering the velocity of money. The most famous monetarist, Milton Friedman, along with Anna Schwartz, argued that what caused economic downturns was the inability of the stock of money to keep up with the business cycle, and so that central bank's responsibility is to step in and ramp up the velocity in order to offset the business cycle.[38] This allows Friedman and fellow monetarists to argue that the Great Depression was caused by the inability of bumbling central bankers to quickly enough flush the economy with dollars, and doing so would have prevented the downturn.[39] This explanation is always already justified by the assumption that it starts with: an increase in the stock of money or velocity thereof must automatically be in an “Elysian state of moving equilibrium” that causes GDP to rise (there is enough assuming going on here, let alone worrying about whether an increase in GDP necessarily qualifies as a “better” state of affairs for a given sect of citizens in a democratic society).[40] This analysis also should make it unsurprising that Friedman, and many of his acolytes, describe themselves as Keynesian. If velocity is hard to determine, lags behind the business cycle, and money is endogenously created, how can monetarist policy be effectively deployed by a bank? Friedman comes up short in his own analysis, arguing instead for a central bank that is apparently competent and eerily prescient (presumably he would appoint himself), and tries to hold to some “natural” rate of inflation – but this is all a very unsatisfactory way of solving the velocity problem, let alone explaining political and social phenomena.[41]

At this point, it is worthwhile to revisit Friedman’s methodological underpinnings. He is attempting to use monetarism as an explanatory device, useful in its predictive capacities to explain virtually any economic phenomenon through the lens of the money supply. Its simplicity is its strength, according to Friedman, since the point of a theory is to explain a lot using a little. Losing social complexity is not a concern of his. In fact, as outlined above, he thinks that

---

[38] Hyman P. Minsky, Arhur M. Okun, and Clark Warburton, “Comments on Friedman’s and Schwartz’ Money and the Business Cycles,” *The Review of Economics and Statistics* 45, no. 1, Part 2, Supplement (February 1963): 78.

[39] Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton University Press, 1971).

[40] Milton Friedman and Michael Bordo, *The Optimum Quantity of Money* (Transaction Publishers, 2005), 229.

[41] Friedman and Schwartz’ faith in the stock of the money supply to achieve any kind of social end is an absolute one. They wonder, for instance, whether the Third Reich would have emerged at all had Germany been more dutiful about raising its stock of money at the average rate of 2.5% per year (*A Monetary History of the United States, 1857-1960*, 545).

actually dilutes a theory. But the monetarist deployment of MV=PT loses virtually all of its explanatory power in its actual use. Joan Robinson argues that the focus on M leads orthodox economics to assume itself for justification:

> The monetarist theory is not so easily described. The modern version of the quantity theory connects M, not to the flow of transactions [or in terms of the initial equation, T], but to PQ, the value of gross output, so that V simply means GNP divided by some figure representing the quantity of money; all the interactions in the mobile are collapsed into one opaque relationship.[42]

Robinson is telling us here that quantity money is only explained by assuming a given quantity of money. This happens because velocity must also be assumed so the equation can be solved. The relationship between money, velocity, and GDP are then all assumed to make the argument for a relationship.

As is clear, lacking any kind of measurement to succinctly measure it, the velocity of money is generally measured by the stock of money, or the M variable of the equilibrium equation. To be sure, the variables are necessarily related in the equation, since an increase in the transmission of money can certainly happen at a much quicker pace when the stock of money is built up, but the equation does not tell us anything essential about the relationship of that to the productivity of the nation. So long as we may be able to strictly monitor the money supply, then perhaps the velocity question can be smoothed out, but when one comes back around to the nature of money that not only is velocity an unreliable quantity, so is the amount of money in circulation.

If the monetarists are to have their way, however, they must give an account for what exactly counts as money. As mentioned above are three measurements of money in the United States economy: M1 is basically cash and checking. M2 is M1 with savings accounts, money

[42] Joan Robinson, "What Are the Questions?" *Journal of Economic Literature* 15, no. 4 (December 1977): 1327–8.

market funds, and small time deposits. M3 is supposed to be M2 plus large time deposits, money market funds, commercial paper and Eurodollars – essentially M3 is supposed to be the number that most closely approximates all of the money (and near-money) in circulation.[43] One would think then, that M3 would be the measure of money that the dominant monetarist line of thought would use, since it would tell us the best guess about the velocity of that money, and indeed have that equalizing relationship with GDP. However, in 2006, the Federal Reserve ceased publishing M3. While it is tempting to argue that the Federal Reserve declined to continue publishing this number because it reflected inflationary pressures much higher than the Consumer Pricing Index numbers[44], there may be a far less mendacious reason: the Reserve simply did not know what to count as near-money, since promises to pay can operate as money, as Marxian analysis will show in the next chapter.[45] Commercial paper counts as near-money, since they are a promise to pay cash at a later date and can be traded on markets, though one could not pay the mortgage with it (if private citizens ever see commercial paper in their lifetimes to begin with). But what about interest rate swaps? How do we measure just how much of the future cash flow of a collateralized debt obligation (CDO) counts as real claims to real money? As Phillips puts it, the leveraging that one can perform in the securitization of loans is staggering, and makes fractional reserve banking look puny in comparison, allowing a exponential amounts of money to be called in on relatively little. These are clearly claims on future cash flows, and they clearly ought to be included in an estimation of the total amount of money. It seems that if they are not, it is because

---

[43] Phillips, *Bad Money, Reckless Finance*, 111.
[44] This is only a perception, though. Later in the argument I will display that quantity money is a poor indicator of inflation.
[45] Phillips, *Bad Money, Reckless Finance*, 112.

the Federal Reserve is aware that a good chunk of these near-money claims will turn out to be worthless.[46]

The Friedmanites and monetarists of the world do not solve this conundrum. Minsky critiques Friedman and Schwartz for not fully integrating a view of financial commitments in their understanding of the vital importance of money in the economy. The critique is thus: in the Friedman-Schwartz model, there is no account for the financial realities facing firms at any point. The amount of cash sitting in the economy has nothing to do with the amount of money that firms or individuals have promised to pay, or how much money is leveraged on a particular asset. Many assets that would be purchased could well be a liability (or indicative of a firm being in a Ponzi position, to use the Minskian taxonomy from last chapter). This is an important consideration, because the asset structures of distressed firms matter if a sudden influx of cash will compel hedge firms to purchase the failing ones. Firms might well look at distressed firms and, even if flush with a new infusion of cash, decide not to purchase capital assets from failing firms – a deflationary spiral begins.[47] This is clearly why M3 and "near-money" matters. A promise to pay is just as good as money in financial capitalism, and a firm not thinking that an entity can make its payments is just as good as not having any money in the first place. A contemporary analog is easily observed here: through the Troubled/Toxic Asset Relief Program (the unfortunately-named TARP), financial firms were "made whole" or had their bad loans purchased on behalf of the taxpayer by the federal government. With such an infusion of good money driving out the bad, it was expected that banks would begin lending to credit-worthy businesses and individuals again. What we saw instead was a hoarding of cash by the banks, because their infusion of cash did not change the fact that there is few credit worthy entities right

[46] Ibid., 111.
[47] Minsky, Okun, and Warburton, "Comments on Friedman's and Schwartz' Money and the Business Cycles," 70.

now. Minsky argues that it is because Friedman and Schwartz ignore these realties by presuming that disruptions come out of perfect equilibrium.[48] If they are right, then equilibrium must be simply restored by a quick and nimble reconfiguration of the money supply. Minsky's critique is that we should not be allowed to make such an assumption – after all, how can shocks emerge out of a state of equilibrium? The theory depends on the initial conditions for which it argues.

A good question for a robust economic theory to consider, from a standpoint of social complexity, would be to determine the social relations that turn credit-worthiness into debt-unworthiness. To do so asks us to consider what the nature of credit is, how time and finance affect confidence, willingness to invest, and the propensity to hoard cash. Unlike Friedman's methodological dictates of distilling the world into the most convenient categories, we instead investigate the world of finance in such a way. But let us once again look empirically at the monetarist claims about why quantity money matters:

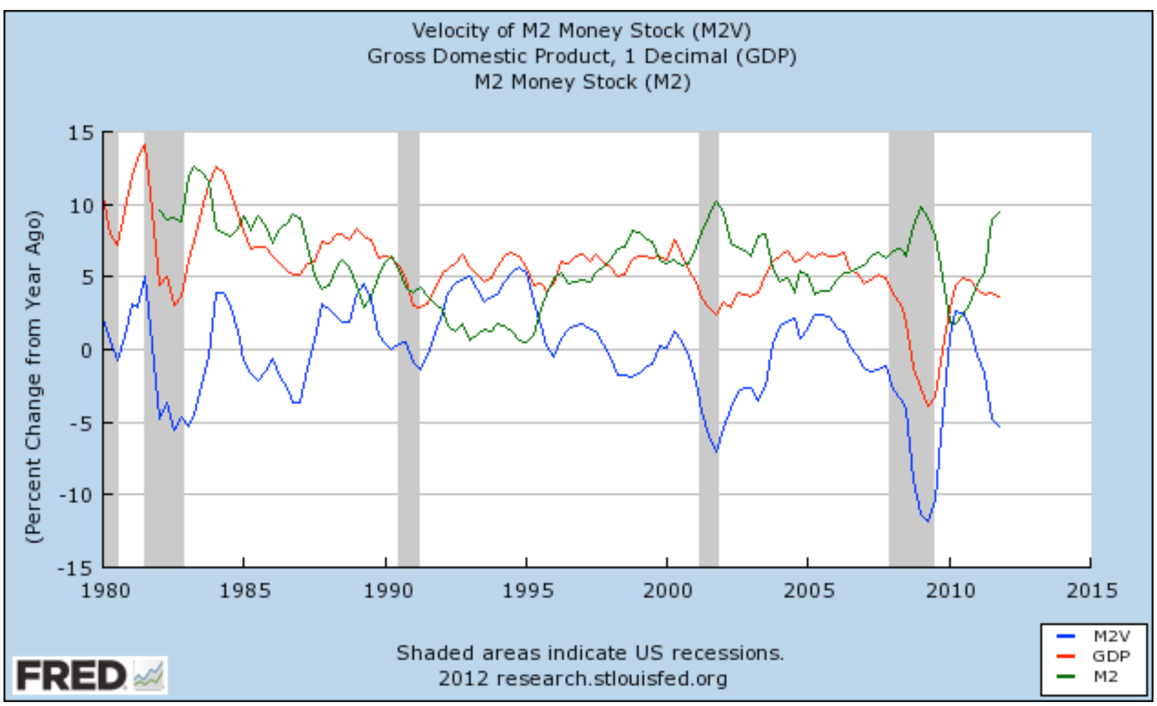


**Figure 2: Velocity, GDP and the Money Stock (Percent Change from Year Ago)**

[48] Ibid.

When changed to show a percent change over the course of the last thirty years, there is very clearly a general relationship between the velocity of money and GDP. What is disturbingly less clear is the relationship between the money supply (remember that M2 is not the real money supply by the Federal Reserve's own admission) and the velocity of money. There are clear points, especially in the shaded areas of recessions, where money and velocity do not move in the same direction, or points where GDP outpaces the dual movements of money and velocity, which they are supposed to equal.

And this might not even be the most important part of the story, as the graph above assumes the relationship between the money supply and the velocity of money (referred to as the "money multiplier," or how many dollars of spending power a certain amount of cash will create). Outside of the comfortable tautology of this equation, it is difficult to imagine a reliable way of deducing just how much money is actually in the economy, that goes even beyond the above description of near-money. A simple thought experiment will demonstrate: if an individual is deemed creditworthy/debtworthy by a lender, and promises to make a payment of *x* dollars, then that lender now has a financial instrument worth *x* dollars that is entered in the asset column on the balance sheet, and can be used to pursue profitable investment opportunities. Ostensibly the lender would assure that the reason for the loan would be to finance a capital asset that would ultimately allow the borrower to repay with interest, but in the current crisis, that was not the case for a variety of reasons. Money has been, in a sense, created, in that the borrower has promised to pay, but it is clear how that promise to pay has nothing to do with the amount of money in circulation or how quickly that money is turned over in any given timeframe, making it difficult to see the role of the central bank and its rate of releasing cash in such a relationship. In a practical sense, banks do not then make loans based on their reserves; they make loans to creditworthy/debtworthy customers, only utilizing their reserve positions to prevent runs.[49]

We can draw a number of conclusions from the analysis of MV = PT. The first is that its social implications go well beyond the mere identities that it seems to imply, and that it indeed ignores financial commitments. We can also deduce that ignoring financial commitments is akin to ignoring time itself as a factor, a strange conclusion in a dynamic market economy. While some of the identities hold logically, for instance that there must be at least enough money to purchase all commodities that are produced, or a dollar of one person's debt is another person's/institution's dollar of credit, the reality is a whole lot messier, and well beyond the starting point of academic economics.

With this pillar of orthodoxy dismissed, we ought to consider alternatives to the monetarist narrative of how a dynamic economy works; enter Minsky. Minsky's analysis gives us far more insight into some of the categories that reductive math can take into account. It is clear that money creation is endogenous, but is not because of some overheated money press at the United States Treasury. Rather:

> Banking is not money lending; to lend, a money lender must have money. The fundamental banking activity is accepting, that is, guaranteeing that some party is *creditworthy*. A bank, by accepting a *debt instrument*, agrees to make specified payments if the debtor will not or cannot. Such an accepted or endorsed note can then be sold in the open market. A bank loan is equivalent to a bank's buying a note that it has accepted.[50] (Emphasis added)

There are numerous consequences to this analysis. One is that bank lending is not like the everyday experience of lending between private citizens or loan sharking. Private lending must take place out of a stock of cash; bank lending is based only on a promise to pay. In other words,

---

[49] L. Randall Wray, *Understanding Modern Money: The Key to Full Employment and Price Stability* (Edward Elgar Publishing, 2006), 111.
[50] Minsky, *Stabilizing an Unstable Economy*, 256.

banks create money out of issuing loans to persons they deem creditworthy. This might not be as counterintuitive as it seems on first glance. Loans are issued on perceived creditworthiness, and as such immediately become assets on the bank's balance sheet, as it sets up a (from the bank's position, stable) cash flow for a set period of time. It immediately uses this cash flow to finance new positions, or bolster existing positions. This is a point of departure from the standard model of fractional reserve banking, which attempts to argue that banks are constricted in terms of how much they can lend based on how much money they are required to have on hand. The Minskian version of fractional reserve banking would be that reserve requirements function to regulate the effective demand for credit. Banks will offer credit to all creditworthy customers regardless of reserve requirements, but may be less inclined to do so with reserve requirements (though one could imagine that during a bubble that means very little). The money flows that come into the bank from the loans it creates is not yet a part of this analysis.

Another consequence of Minsky's claim is that when a bank issues a loan and borrows against it (which, again, to be clear, is based on the strength of the belief of the creditworthiness of the debtor from the issuer), the bank becomes the guarantor of that instrument. Purchasing bank notes on the open market are an immediate and visceral example of how debt is an asset when one assumes the position of creditor. Minsky continues this analysis of the familiar realm of banking into the less familiar realm of commercial paper. He notes that commercial paper, or a firm's short-term promise to pay to get them through the weekend or make the next payroll obligation, is only as good as the bank's guarantee that the money is there, allowing the payment schedule to be maintained.[51] This is a relatively simple concept to grasp as it applies to banking, but we should consider further consequences of endogenous money creation. Any private party

[51] Ibid.

can issue a promise to pay, and if it is accepted by another party/institution, and guaranteed by a bank, that money has been created with not a single bit of involvement from the issuer of the currency. At this point not only is quantity theory money a troubled concept, so is the idea that we can somehow cleave off “near money” from “real money “cleanly, as some monetarists would like to have it. Borrowing and lending happen on near money just as much as real money, and commitments to pay on near money must be settled in real money. Only a view of the dynamic flows of finance could sustain such a vision of political economy, which accounts for the endogenous creation of both real money and near money. These interjections run afoul of many of the established neoclassical models, but just from this brief critique of a foundational equation, we see that the model might not be the explanatory tool it purports to be.

Similarly, Hyman Minsky was fond of quoting Peter Albin’s aphorism: “The agents in the model have a model of the model.” Economic theory is often derided for its “physics envy,” and we can probably add mathematics envy to the list as well. While in many cases this may be a fairly levied charge, there is some economics literature that seeks to explain what it means by theory. The irony that Mirowski points out in his analysis is that while economics seeks to find the certainty that it assumes the bench sciences have attained, those bench scientists have shifted their thinking to one of uncertainty, with Mirowski noting that many physicists have taken their social science colleagues to task for their failure to properly understand the role of mathematic evaluation in their own fields.[52] Albin’s idiom is an excellent way to distinguish between two competing kinds of economic theory: The Efficient Market Hypothesis of the neoclassical school and the Financial Instability Hypothesis, of which Minsky gives the clearest vision.

[52] Mirowski, *More Heat Than Light*.

Economists in what can loosely be called the instability, or "neo-Keynesian" tradition dealt with uncertainty in advanced finance capitalist countries. Because of this admitted uncertainty, their conception of guiding theory was not the attempt at uncovering the metaphysical laws guiding all economic activity and then contorting the world to fit them. Rather, they purport to formulate their theories to explain the way the economy is actually working:

> In this view relevant theory is not a compendium of propositions derived from axioms assumed to be universally true: economic theory is not a subdivision of mathematics. Relevant theory is the result of the exercise of imagination and logical powers on observations that are due to experience: it yields propositions about the operation of an actual economy. The current methodological fashion, where artificial economies are first specified, then simulated and finally deemed satisfactory (unsatisfactory) if it can be said that the general characteristics of simulation are similar (dissimilar) to the general characteristics of a time series of constructs based upon observations (such as GNP) would most certainly have been anathema to both Keynes and the Institutionalist [sic] of his day.[53]

While I argue that this attitude is a better one than twisting the world to make the world seem a certain way, even a better model is still but a model (the idea that the Consumer Pricing Index treats mortgage payments as homeowners paying rent to themselves is just one of many head-scratching ways this can be done, but has the benefit of masking the inflationary impact of rising home prices for consumers). But again, the way to critique this brand of political economy is barred from the very methodological dictates that are suggested above.

While this certainly a preferable way to think about the world, it is still one-sided. From the cultural theory of establishing spaces for social action, it is clear that even if one merely tries to formulate a theory that comes derived from experience in the world, that theory will then shape (or misshape) economic activity. In other words, a culturally based model is still a model. Keynes' own involvement in Bretton Woods is enough to make this claim; setting the price of

[53] Minsky, "Uncertainty and the Institutional Structure of Capitalist Economies," 1.

gold at 35 dollars an ounce is not merely describing the world; it obviously set in motion a certain political economy. Another downside to this supposed mere interpreting the world as economists find it is that it is further proof for Veblen's argument that I sketched out in the previous chapter – economics as a science can do a good job of describing the way things used to be, but not the way things are. By the time economists of such a stripe are done interpreting the world, business and industry have moved on to new formations, and formed new financial instruments, and so economics must play catch-up once again. Finally, such an approach still naturalizes a certain kind of economy, although even here there is a certain level of disconnect between the theory of merely explaining the world as one finds it and how to shape the world through economic policy. For instance, Minsky said in his later works that the challenge facing advanced capitalist countries was reforming capitalism, for formerly state socialist countries, making capitalism work, and in the 'developing world' creating capitalism.[54]

In general crises, however, the questions can shift. While in the mid-1990s, the United States was in the 'booming' throes of euphoric hedge finance, but now that this is no longer the case, the question may be something resembling one that Minsky asked, which is that if we can see that capitalism is failing, how can we make one that works?[55] This kind of sentiment seems aware that the economic theory being proposed is indeed trying to shape the future, not just interpret the present (or past, as the case may be), but in any event is certainly attempting to do more than merely be predictive. Even so, instability economic theory still tends to be uncritical, or trying to make the case of a "practical best." Here we can see that there is at least a tendency to look outside of strict economic theory to consider the spaces of possibilities and the

---

[54] Minsky, "The Economic Problem at the End of the Second Millennium: Creating Capitalism, Reforming Capitalism, Making Capitalism Work."

[55] Keynes quoted in: Minsky, Hyman P. "Uncertainty and the Institutional Structure of Capitalist Economies." Levy Economics Institute Working Paper 155, 1.

arrangements that would create various kinds of social relations. Even though their purported theory tells us that they are only interpreting the world, one of the most important elements of the instability economic theory is that it is temporal – that yesterday's financial decisions limit today's, and the ones we make today are based on some idea of how we think things will look in the future. If the future does not look how we thought it might, then it is time to rethink the theory.

In the other loose category, the stability or "monetarist" or neoclassical economic theory is at the very least attractive due to its simplicity: an economy should be based entirely on the price function, and the way to manage that price function is through the volume and velocity of the money supply, via interest rate levers at the Federal Reserve.[56] It has also been the dominant theoretical strain in contemporary capitalism, which unfortunately tends to ignore the financial time commitments of non-central bank actors. This theory lends itself to the physics and mathematics envy, to be sure, but there are a number of paradoxes that can be observed socially. First, there is no room for general crisis (or as Marx refers to it, a "monetary famine") in stability theory – even during a general crisis. All "crises" are due to incorrect pricing, usually the result of bad 'actors' (governments, monopoly companies, "rogue traders"), which throws the money supply into disarray. This is apparently not a crisis, but an imperfection that can be fixed by playing around with the interest rate at the Federal Reserve. A second paradox is individual agency. Stability/monetarist economic theory is the guiding principle of choice to go along with the rise of neoliberal thought. The paradox is that the game of economics has been figured out, and people either distort it for whatever reason – which the market will of course fix by itself – or people literally cannot help but participate in a market tending toward stabilization. Yet in

---

[56] How economists from different parts of the world contributed to such a theory is laid out in Philip Mirowski. *The Road From Mont Pelerin*. (Cambridge: Harvard University Press, 2009).

neoliberal literature, there is a conflation of this kind of economic theory with *freedom itself*, with little regard for who is invited to gamble in the casino and who is allowed to set the rules of the game.[57] There is little room for agency here, and if this is true, then indeed there is no alternative. There is no way to deal with crisis, and there is no other way to act, and so in stability theory there is even less room for critique than instability theory. There is only the price function, and as the "correct" price is approached, then from that good things must flow.

It would certainly be convenient for this project if these two strands of economic thought were as separate and as distinct as I make them out to be, although to some degree they can be. However, this is not the case. Minsky spent a good portion of his career rescuing Keynes' and the field of instability economic theory from what he called the "neoclassical synthesis."[58] The argument is that Keynes represented a real break from orthodox economics, but orthodox economics ended up merely incorporating a few of his observations in some of their models, not giving the appropriate radical shift in thinking what it was owed. In this way, labeling an economist a "Keynesian" or a "neoclassicist" does not tell us very much about what the guiding economic theories are. Economic theory, then, either tells us that there is no point in worrying about the political or cultural as they are realms that sort themselves out for the benefit of all, or there is no obvious way to tell how those things matter within economic theory alone. Rather, a political explanation that exposes the role of government in setting up the arena wherein the rules of the market game are made will get closer to the social relations in a given economy.

---

[57] This literature emerges from Bohm-Bawerk, and through the Mont-Pelerin society through Hayek, finding its roots in the United States in the "Chicago School" from which came Friedman's famous *Capitalism and Freedom* (1962). It is also worth noting that "freedom" in this context is not necessarily a claim on the realm of political theory, and in fact I would argue that it represents a complete de-politicizing of the term. This freedom is about the supposed freedom of participation in a certain kind of economic model, not the freedom to set the rules of the game. The political and social consequences of this peculiar brand of freedom are laid out extensively in Klein's *The Shock Doctrine* (2007).

[58] Minsky, *John Maynard Keynes,* 17.

## CHAPTER THREE: Is Marx the Hidden Subject?

The second possibility for political economy that Minsky notes is that the term is a codename for Marxism. While it may be initially tempting to dismiss this as a joke, or a winking nod to the economists who might dare challenge orthodoxy, the specter of Marx looms large in the discussion of economic theories of crisis, as his work in *Capital* displays how capitalism only operates and grows through crisis. Minsky, unlike many academic economists, did not ignore the relevance of Marx to discussions of political economy, noting in an Americans for Democratic Action proposal: "'From each according to his ability…' remains a good rule."[1] Perhaps the best way to understand the relationship of Marxian analysis to Minskian political economy is to consider the goal of Minsky's academic career: to synthesize Keynes and Schumpeter.[2] Both of these thinkers had an interesting relationship to Marxian analysis. Schumpeter's right-wing analysis was obsessed with it, ceding its economic analysis while supposedly triumphing in his sociological terminus.[3] On the other pole are Keynes' liberalism and the subsequent refusal to engage with the text. Some posit that Keynes (perhaps disingenuously) claims to have never read Marx, or that for ideological reasons Keynes refused to elevate the contributions in political economy to its proper status, even though the two thinkers diverged on many points of analysis. This chapter will thus give a Marxian perspective of the relevant political economies of the two titans of twentieth century economic thought and how it both informs and challenges the political economy Minsky formulated in his attempt to synthesize Keynes and Schumpeter.

---

[1] Hyman P. Minsky, "Comments to ADA Program" (Archival, 1976).

[2] Schumpeter was Minsky's PhD adviser at Harvard until his death in 1950, whereupon Minsky completed his graduate work under Wassily Leontief.

[3] Robert L. Heilbroner, *The Worldly Philosophers: The Lives, Times And Ideas Of The Great Economic Thinkers*. (Touchstone, 1999), 303.

It is no secret that Minsky preferred the analysis of Keynes to Schumpeter. There are two principal reasons for this. First is the turgid prose and endless parade of data emerging from Schumpeter's political economy in reaction to the collapse of capitalism as opposed to Keynes' more urgent and cogent analysis:

> While Schumpeter may be the source of great insights into the capitalist process, he did not leave a useful theoretical framework for the analysis of capitalism. On the other hand further progress in understanding capitalism may very well depend upon integrating Schumpeter's insights with regard to the dynamics of a capitalist process and the role of the innovative entrepreneurs into an analytical framework that in its essential properties is Keynesian.[4]

Minsky found Schumpeter's response to the possibilities of depression lacking, especially when compared to Keynes' ability to formulate a political economy *around* the idea of depression, and so while Schumpeter may have gotten the overall trajectory of the dynamism of a capitalist economy correct, "Schumpeter's Business Cycle Theory are mechanical and the vast presentation of data is numbing rather than enlightening."[5] Second, and perhaps more interestingly, is Minsky's persistent criticism of Schumpeter that he writes "with 'Marx' as the hidden subject."[6] Keynes had no such specter to wrestle with, or perhaps his hidden subject was Alfred Marshall, who may have been a kindler and gentler hidden subject.[7]

The intersection of Marxian analysis through these thinkers will ultimately lead to the conclusion that the relationship between the "real" world of production and the "fantastical" world of finance are closely intertwined, and can be best seen through the lens of a financial crisis. This will both validate the financial instability hypothesis of Minsky, while at the same time expose its limitations as a way to explain the world of production, as it is too focused on the

---

[4] Hyman P. Minsky, "Money and Crisis in Schumpeter and Keynes." Eds. Hans-Jürgen Wagener, Jan W. Drukker, and Rijksuniversiteit te Groningen. Faculteit der Economische Wetenschappen, *The Economic Law of Motion of Modern Society: a Marx-Keynes-Schumpeter Centennial* (CUP Archive, 1986), 113.
[5] Ibid, 114.
[6] Ibid, 113.
[7] Heilbroner, *The Worldly Philosophers*, 285.

world of finance. But first I must trace the thinkers and the relevance of Marxian thought that Minsky is synthesizing in his own project.

### 3.0 Marx and Keynes

Keynes claims to have never read Marx.[8] On the other hand, he has assigned Marx's place in history to be ranked behind Gesell, for Marx's inability to divine the marginal efficiency of capital.[9] Whether Keynes actually read Marx is immaterial, but in light of his aversion to Marx, it is interesting to note the analyses of financial capitalism that Keynes makes that might otherwise find their home in the volumes of *Capital*, and indeed Keynes included explicit references to the M-C-M' circuit in an earlier version of *The General Theory*.[10] I have given the evolution of financial capital up until the current crisis in chapter one, so I will simply add the relevance of Marxian analysis for understanding Keynesian financial capital.

Keynes, in a very distinct break from a purely monetarist political economy, understood that financing is a tool used to facilitate the dynamism that is seen in capitalist society: "There is a multitude of real assets in the world which constitute our capital wealth – buildings, stocks of commodities, goods in course of manufacture and of transport, and so forth. The nominal owners of these assets, however, have not infrequently borrowed *money* in order to become possessed of them [emphasis original]."[11] The first striking thing to note in this idea is that money is not itself the object of wealth: the wealth of a nation is rather its capital/productive assets, or in more purely Marxian terminology, the means of production. The second aspect to note is that money acts as a mere facilitator to provide and track ownership of these capital assets. It is clear then,

---

[8] David Harvey, *A Companion to Marx's Capital* (Verso, 2010), 68.
[9] Keynes, *The General Theory of Employment, Interest and Money*, 355.
[10] Martin Bronfenbrenner, "Schumpeter and Keynes as 'Rich Man's Karl Marxes'," in *The Economic Law of Motion of Modern Society: a Marx-Keynes-Schumpeter Centennial*, ed. Hans-Jürgen Wagener and Jan W. Drukker (CUP Archive, 1986), 24.
[11] John Maynard Keynes, *Essays in Persuasion*, Reissue. (Palgrave Macmillan, 2010), 93.

that money acts as a communicator for the directional flows of capital. Money is not necessarily capital unto itself, but rather flows in the direction of capital, signaling the social relations for those that marshal capital.

Marx tells us as much in his analysis of interest, that it is simply charting the distributive flows of surplus value to more easily facilitate the M - ΔM circuit, with as little commodity production and exchange in the middle as possible.[12] To borrow money to become possessed of the means of production, we can conclude, has less to do with what is actually being produced and more to borrow the money to secure a flow of capital. However the capital flow, in a Marxian perspective, can only be secured on the basis of actual commodity production. Marx notes the seeming paradox:

> The credit system has a dual character immanent in it: on the one hand it develops the motive of capitalist production, enrichment by the exploitation of others' labor, into the purest and most colossal system of gambling and swindling, and restricts ever more the already small number of the exploiters of social wealth; on the other hand however it constitutes the form of transition towards a new mode of production. It is this dual character that gives the principal spokesmen for credit…their nicely mixed character of swindler and prophet.[13]

The financing of the means of capital assets/the means of production gives a dual movement of motivations for the capitalist. The capitalist cares little for what is actually produced, indeed seeking to lay claims to future flows of money through the use of credit to purchase capital assets, while at the same time, there is always already, at the heart of any financial instrument, a point of production. Keynes' concept of finance above is instructive, understanding that it is the productive capacity of a nation that composes its wealth. The M - ΔM circuit is thus always an enticing illusion, there must always be an interceding production of a commodity – a good, a service, a mortgage, or even the product of immaterial/affective labor.

---

[12] Karl Marx, *Capital: A Critique of Political Economy, Vol. 3* (Penguin Classics, 1993), 467.
[13] Ibid, 572.

The underlying capital assets that formulate the basis of financial arrangements, however, are not always clear, and as we now know from Marx's double movement, the entity borrowing money does not wish to engage in the work of production, while needing that production to take place all the same. The way around this, notes Marx, is in the peddling of securities and other financial instruments in order to lay a claim to future surplus value without worrying oneself in the noisy sphere of production.[14] The instruments of finance that are deployed by banks Marx calls banking capital, consisting of cash and securities.[15] The cash deposits, contrary to what the dominant orthodoxy of monetarism might suggest, are not the important aspect of this analysis. Rather, Marx focuses on the securities issued by financial institutions as being purely fictitious capital; there is no guarantee whatsoever that the notes/paper/bonds issued by the bank will actually represent claims to future cash flows.[16] In fact, it is not difficult to imagine how a security might be worth a given amount of money, and then through control fraud (Madoff), accounting chicanery (Enron and WorldCom), or a general crisis, after a given time, that same security is worth less than when it was purchased, failing to valorize. Marx is aware of this: "[The security's] value is always simply the capitalized yield, i.e. the yield as reckoned on an illusory rate of interest… all these securities actually represent nothing but accumulated claims, legal titles, to future production."[17] The question that we might put to Keynesian theory then is *why* investors are compelled to borrow money to become possessed of a nation's productive assets. In other words, why not wait until the assets can be bought outright, like a good Smithian practitioner of *laissez-faire*?

---

[14] Ibid, 590.
[15] Ibid, 594.
[16] Ibid, 597.
[17] Ibid, 597-8.

Instead of talking about prices or the rate of interest, Marx cuts through to the social imperative: "Accumulate! Accumulate! This is Moses and the prophets! ...Accumulation for the sake of accumulation, production for the sake of production."[18] The drive to accumulate defines the bourgeois epoch of capitalism for Marx. Any who wishes to participate in production must behave in such a way to accumulate as much capital as possible. Of course Marx understands that the realities of capital accumulation are not always open to the immediate purchasing of capital assets, whereby capitalists are coerced into turning to financial markets to secure capital flows. He notes, "Any commodity can realize its value only in the process of circulation, and whether and to what extent it does realize this depends on the market conditions of the time."[19] This answers the question of Keynesian theory of why people will borrow money to become possessed of capital assets: to get commodities into circulation is the only way to secure the capital flows; it also establishes the importance of incorporating a theory of finance into political economy. So while Keynes had nothing kind to say regarding Marxian analysis, it is the same analysis that helps to overcomes an initial and fundamental hurdle to Keynesian analysis.[20] Keynes himself seems content to merely establish the statistical truth of the unknowability of the future:

> The sense in which I am using the term [uncertainty] is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention, or the position of private wealth-owners in the social system in 1970. About these matters there is no scientific basis on which to form any calculable probability whatsoever. *We simply do not know*. Nevertheless, the necessity for action and for decision compels us as practical men [sic] to do our best to overlook this awkward fact and to behave exactly as we should if we had behind us a good Benthamite calculation

---

[18] Karl Marx, *Capital: Volume 1: A Critique of Political Economy* (Penguin Classics, 1992), 742.
[19] Marx, *Capital: A Critique of Political Economy, Vol. 3,* 777.
[20] Heilbroner, *The Worldly Philosophers*, 266. Here Heilbroner touches on the idea that there is little reason to think that investment would come out of a propensity to hoard. There needs to be, in other words, an enticement for investment to take place, which Marx answers as an inexorable drive of capitalism itself.

> of a series of prospective advantages and disadvantages, each multiplied by a its appropriate probability, waiting to be summed [emphasis added].[21]

Here the difference between Marx and Keynes is clear. Keynes, in the face of uncertainty, simply acts as though the future were certain. Marx's analysis leads us to wonder what force would compel people, in the face of such uncertainty, to nevertheless purchase securities or invest. Crotty makes clear that Keynes' Marginal Efficiency of Investment (MEI), while purporting to model cash flow over the life of capital assets, is almost overwhelmingly complex, and its predictive capacity, to borrow Freidman's concept from last chapter, suffers.[22]

The purchasing of securities, which is supposed to facilitate capital flows, does not, however, solve realization crises. It simply explains what compels a capitalist/firm to reinvest their profits into other capital flows or expanded production. Marx is correct that market conditions determine flows of capital, which forces political economy to take into account time demands in terms of finance. There are a number of ways in which this may happen, which gives cause to recall the analysis of Minsky's hypothesis from chapter one. Crotty notes that: "Realization problems are problems of disproportionality between the distribution of income as determined by technology and class struggle in the sphere of production and the distribution of demand across markets as it is affected by the distribution of income."[23] What Crotty makes clear here is that the ability for financial securities to lay claim to capital flows is contingent on the realm of production and whether the workers have sufficient income to purchase the commodities that they are making.

---

[21] J. M. Keynes, "The General Theory of Employment," *The Quarterly Journal of Economics* 51, no. 2 (February 1, 1937): 214.

[22] James R Crotty, "Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy," in *Marx, Schumpeter, & Keynes: A Centenary Celebration of Dissent*, ed. Suzanne W. Helburn and David F. Bramhall (Armonk, N.Y.: M.E. Sharpe, 1986), 298.

[23] James R. Crotty, "Rethinking Marxian Investment Theory: Keynes-Minsky Instability, Competitive Regime Shifts and Coerced Investment," *Review of Radical Political Economics* 25, no. 1 (March 1993): 9.

It is with this understanding where the similarities between Keynes and Marx end, however. Keynes has an eye toward full employment and productive use of a nation's capital assets, without understanding that unemployment is endemic to the system of capitalism, offering *involuntary* unemployment, as opposed to the voluntary unemployment, that he assumes all market societies will have.[24] Keynes closes out *The General Theory* with some "social" consequences of his vision, arguing that a small decrease in capital's share would set aside enough of the nation's capital to achieve full employment and that by and large, the system of production works, and is not fundamentally flawed.[25] As my project has earlier argued, Minsky held that Keynes is insufficiently understood for his more radical policy proposals, but Keynes clearly saw a limit to his own social prognostications.

### 3.1 Marx and Schumpeter

The relationship between Marx and Joseph Schumpeter is more easily discerned, since he is the first to admit that he is writing with Marx "as the hidden subject." Whereas Keynes dismissed Marx as a less important economist than Gesell, Schumpeter believed Marx to be the only intellect to match his own.[26] Schumpeter is famous for his concept of "creative destruction," but I will argue this concept goes far beyond technological/administrative (re)organization, and has a great deal to do with the very nature of capitalism itself:

> Our argument however extends beyond the cases of new concerns, methods and industries. Old concerns and established industries, whether or not directly attacked, still live in the perennial gale. Situations emerge in the process of creative destruction in which many firms have to perish that nevertheless would be able to live on vigorously and usefully if they could weather a particular storm. Short of such general crises or depressions, sectional situations arise in which the rapid change of data that is characteristic of that process so disorganizes an

---

[24] John Maynard Keynes, *The General Theory of Employment, Interest and Money* (BN Publishing, 2009), 15-16.
[25] Ibid, 379.
[26] Heilbroner, *The Worldly Philosophers*, 300.

> industry for the time being as to inflict functionless losses and to create avoidable unemployment.[27]

The conclusions we can draw from this are clear – the perennial gale of capitalism is not one in which old technologies are phased in or out and where people move about frictionlessly in various areas of industry. Social relations may still degrade or need to be renegotiated along with the material means of production. This analysis of the turbulence of capitalism is a place where Schumpeter and Keynes might well agree. It is also striking on first glance how Schumpeter uses his theory of creative destruction to argue that general crises/depressions are not only possible, but inevitable, and that a good deal of involuntary unemployment will be the result. This is an appropriate addition to the conventional understanding of simple technological innovation.[28]

Schumpeter's theory of creative destruction, with its more complete social impact understood, stands up nicely against (or perhaps with) Marx's theory of the tendency of the rate of profits to fall in Volume Three of *Capital*. Schumpeter's argument for technological innovation, as I have just shown, takes two social paths: disruption in the first instance, but in the final analysis raises standards of living for the working class by markets becoming settled and prices coming down. Schumpeter tells us: "Electric lighting is no great boon to anyone who has money enough to buy a sufficient number of candles and to pay servants to attend to them. It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man [sic]."[29] This is important to keep in mind, that even in a discussion of financial capitalism, that regardless of the rate of profit (Schumpeter tells us that in real capital

---

[27] Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy: Third Edition* (Harper Perennial Modern Classics, 2008), 90.
[28] Though that is part of the analysis, of course, but limiting the focus on only such innovation obscures the link with social consequences.
[29] Schumpeter, *Capitalism, Socialism, and Democracy, 67*.

development terms, the rate of profit is unimportant), the capital development of real assets establishes a better quality of life for everybody.[30] This relationship between nominal growth through investment and the real growth of the development of capital assets will be important as falling profit and creative destruction are synthesized.

Through the rise of increasingly complex circuits of productive capital valorization, Marx shows how this necessarily changes the organic composition of capital into more expensive machinery, diminishing the role of labor power.[31] While this might, at first glance, coalesce with Schumpeter's phenomenon of creative destruction, both in terms of the technological dynamism as well as the necessary disruption of labor relative to that technology. But Marx also warns against succumbing to the idea that all technological dynamism is labor-saving, productivity enhancing, or even gleefully adopted by the titans of industry:

> The portion of value deriving from raw and ancillary materials must fall with the [rising] productivity of labour, since, as far as these materials go, this productivity is precisely expressed in the fact that their value has fallen. And yet it is precisely a characteristic of rising labour productivity that the fixed portion of the constant capital should experience a very sharp increase, and with this also the portion of value that it transfers to the commodities as wear and tear. For a new method of production to prove itself as a genuine advance in productivity, it must transfer a smaller additional share of value to the individual commodity for depreciation of the fixed capital than the portion of value that is deducted because less living labour is spared; it must in other words reduce the value of the commodity.[32]

So far so good with the relationship between Schumpeter and Marx – the result of shifting the components of production in favor of constant capital reduces the value of the commodity. But if we probe the relationship deeper on Marxian terms, it becomes clear that the march toward technological dynamism and efficiency is not a smooth road. There are two ways of dealing with this divergence that highlight the emerging schism between Schumpeter and Marx. The first is in

[30] Ibid.
[31] Karl Marx, *Capital: Volume 2: A Critique of Political Economy* (Penguin Classics, 1993), 146.
[32] Marx, *Capital: A Critique of Political Economy, Vol. 3*, 369-70.

the process of commodity production, and the second is from the goals of the capitalist as they relate to financialization of capital flows.

In Volume I of *Capital*, Marx establishes where profit/surplus value emerges: exploitation of labor in the process of commodity production. Whereas the cost of a capital asset is the raw materials plus wages, (C = c + v), this does not show how a certain social class is able to attain a profit.[33] Marx cuts through the attempts of the classical political economists to conjure a profit out of nothing, by simply showing that the profit must come from *somewhere*, and if it cannot come from the constant capital/raw materials, than it must come not paying the laborer enough for the value they are putting into the commodity through the use of their labor power (C' = c + v + s).[34] That is, the somewhere from which profit emerges comes directly as a withholding from the value that labor adds. If we apply this insight into labor-saving/ productivity enhancing machinery, it is clear that the capitalist must walk a tight rope between preserving the source of their profits while at the same time introducing new machinery to keep prices down.

In Volume III, Marx makes it clear how the expectations of profit might actually give the capitalist an incentive to resist the gale of creative destruction. Marx gives the following arithmetic to make the point:

22 = 18 (.5 depreciation and 17.5 raw materials) + 2 (wages) + 2 (surplus)

21 = 19 (1.5 depreciation and 17.5 raw materials) + 1 (wages) + 1 (surplus)[35]

The difference between these two production processes is the technological innovation. It is complex, with higher depreciation, but also accounts for increased productivity (this must be true

[33] Marx, *Capital: Volume 1: A Critique of Political Economy*, 320.
[34] Ibid, 325.
[35] Marx, *Capital: A Critique of Political Economy, Vol. 3*, 370-1.

in a relative sense if the price of the commodity has gone down) and with a lower price. Whereas Schumpeter would find cause for celebration, Marx reminds us that the capitalist here is losing money. With wages going down, so must the surplus extracted. Not only that, with a faster depreciating machine, more of the profits will have to be reinvested into the constant capital. It is clear why, if at all possible, the capitalist would choose to hold off on the implementation of such innovations. Schumpeter overlooks these motivations in his appraisal of technological dynamism.

There is a continuation with both of these thinkers outside of the realm of immediate production and into finance. Marx continues the argument into the realm of financialization as fictitious capital. Schumpeter also knows that the economy is not strictly run on innovation of actual products and that flows of financial capital requires a class of people in to smoothly direct capital flows. Schumpeter fetes them as the gatekeepers of capital organization:

> He [sic] stands between those who wish to form new combinations and the possessors of productive means. He is essentially a phenomenon of development, though only when no central authority directs the social process. He makes possible the carrying out of new combinations, authorises people, in the name of society, as it were, to form them. He is the ephor of the exchange economy.[36]

The question becomes whether we can trust these ephors to direct capital to socially useful ends, or if they even have the ability in the first place. Minsky notes his skepticism in a number of ways. First Minsky did not believe that the ephors were the only intermediary between capital flows and socially useful ends; central bankers were the "ephor of the ephors."[37] He also did not believe that in its financial stage, the supposed ephors were acting as guardians at all, noting the popular book *Liar's Poker* as: "…a fun and games description of Wall Street and London in the

---

[36] Joseph A. Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* (Transaction Publishers, 1934), 74.

[37] Domenico Delli Gatti, Mauro Gallegati, and Hyman P. Minsky, "Financial Institutions, Economic Policy," in *Behavioral Norms, Technological Progress, and Economic Dynamics: Studies in Schumpeterian Economics*, ed. Ernst Helmstädter and Mark Perlman (University of Michigan Press, 1996), 397.

age of managed money. The furthest thing from the mind of the leading operators at Salomon Brothers was the capital development of the country. Bankers were not Schumpeter's *ephors* [emphasis original]."[38]

To be fair to Schumpeter, though, he would not be surprised by the antics of the supposed vanguards of capitalism. In an attempt to sweep the rug under Marx's social analysis, Schumpeter foresaw capitalism's failure: but instead of a new intelligentsia (or an autonomous movement without intellectuals), he formulated a different conclusion from Marxian analysis. He saw capitalism's demise not from the working class remaking the world, but from the succumbing of the ephors to capitalism's ruthless efficiency and bureaucratic innovation, making a metaphor to medieval knights: "It simply became more and more mechanized – eventually so much so that success in what now is a mere profession no longer carries that connotation of individual achievement which would raise not only the man but also his group into a durable position of social leadership."[39] The ephors, therefore, destroy their own romantic existence through their towering successes, accounting for Schumpeter's negative response to the question of whether capitalism can survive. But in an attempt to get the better of Marx, Schumpeter makes that case that in with the advent of socialism, who better than to run the bureaucracy than the same class of people who established that bureaucratic efficiency in the first place?[40] The ephors of capitalism may lose their romantic luster, but they will nevertheless lead society into the new planned frontier. Even though Schumpeter reviles such planning, he argues that the New Deal in the United States is evidence of just such ability of the ephors of capitalism to administer the new society. There is one slip-up that sets the stage for a final Marxian rejoinder to Schumpeter's

---

[38] Hyman P. Minsky, "Schumpeter and Finance" (Hyman P. Minsky Archive. Paper 280, January 1, 1992), http://digitalcommons.bard.edu/hm_archive/280, 115.
[39] Schumpeter, *Capitalism, Socialism, and Democracy*, 133.
[40] Ibid, 421.

vision of the smooth transition out of capitalism, and that is Schumpeter's assumption of how the ephors will continue to produce and pace innovation in the sphere of material production:

> [New Deal economists] are not all agreed as to the precise location of their movable halfway house. But they all realize what Marx failed to realize: on the one hand, the vast productive possibilities of the capitalist engine that promise indefinitely higher mass standards of life, supplemented by gratis services *without* complete "expropriation of the expropriators"; on the other hand, the extent to which capitalist interests can in fact be expropriated without bringing the economic engine to a standstill and the extent to which this engine may be made to run in the labor interest. [Emphasis original][41]

If, however, the capitalist/socialist class is not interested in fueling actual production, preferring rather to pursue the M - $\Delta$M circuit, there is less reason to be assured about "infinitely higher mass standards of life."

From this Marxian perspective, it is unclear whether Schumpeter has the proper foresight into the actions of the financial class. Whereas Schumpeter seems to believe they will perform a kind of civic duty and still focus on production, innovation, and planned progress, Marx reminds us that financiers engage in swindling and gambling, echoing Minsky's sentiments about the raucous investment bankers in *Liar's Poker* noted above. He also is unconvinced that those in charge of executing financialization of capital will do so focused on production and higher standards of life for all: "Firstly, the accumulation of money capital as such. How far is it and how far is it not, an index of genuine capital accumulation? i.e. of reproduction on an expanded scale? … And secondly, to what extent does monetary scarcity, i.e. a shortage of loan capital, express a lack of real capital? To what extent, on the other hand, does it coincide with a lack of money as such, a lack of means of circulation?"[42] Marx is clear in his analysis that the desire of the rent-seeker is to cut out the commodity production and move directly into a money to more

---

[41] Ibid, 425.
[42] Marx, *Capital: A Critique of Political Economy, Vol. 3*, 607.

money circuit. Capitalism may well collapse due to its successes, as Schumpeter predicts, but there are no ephors – only money managers.

Before moving on to Minsky and Marx, one final point between Marx and Schumpeter as regards business/crisis cycles. Schumpeter notes that Marx's "performance in the field of business cycles is exceedingly difficult to appraise."[43] He does admit that Marx analyzed decennial cycles, but "without the statistical component."[44] Schumpeter also analyzed 60-year "Kondratieff" cycles as well as 40-month "Kitching" cycles.[45] That capitalism is prone to crisis is not a controversial statement; as noted above, Keynes based his entire general theory on the possibility of crisis and economic depression. Where they differ though is that Schumpeter sees capitalism as an idle force, in equilibrium, until a new technological force is innovated, upsetting capital flows, but always for the better.[46] Marx, on the other hand, has a more dynamic view of capitalism that does not "start" anywhere, nor does it have a resting point or an equilibrium, but a driving, restless process:

> The result is that the cycle of related turnovers, extending over a number of years, within which the capital is confined by its fixed component, is one of the material foundations for the periodic cycle in which business passes through successive periods of stagnation, moderate activity, overexcitement and crisis. The periods for which capital is invested certainly differ greatly, and do not coincide in time. But a crisis is always the starting-point of a large volume of new investment. It is also, therefore, if we consider the society as a whole, more or less a new material basis for the next turnover society.[47]

From this Marxian analysis, hunting for business cycles would be an incredibly complex cycle, difficult to pin down to "waves," as capital is always churning and overturning, introducing new technology, affecting different sectors in different ways. This fragmentation leads Minsky to find

---

[43] Schumpeter, *Capitalism, Socialism, and Democracy*, 38.
[44] Ibid, 41.
[45] Gianni Vaggi and Peter Groenewegen, *A Concise History of Economic Thought: From Mercantilism to Monetarism*, 1st ed. (New York: Palgrave Macmillan, 2003), 269.
[46] Ibid.
[47] Marx, *Capital: Volume 2: A Critique of Political Economy*, 264.

Schumpeter's desire to find these waves unsatisfactory: there can be cycles of different lengths in different sectors at different times.

### 3.2 Minsky and Marx

Minsky shared the vision of Marx, Keynes and Schumpeter that capitalism was crisis prone, and he envisioned his work as a synthesis of Keynes and Schumpeter, noting that "The task confronting economics today may be characterized as a need to integrate Schumpeter's vision of a resilient intertemporal capitalist process with Keynes's hard insights into the fragility introduced into the capitalist accumulation process by some inescapable properties of capitalist financial structures.[48] Minsky pushed his analysis into a position of privileging finance because of his theory of money manager capitalism, that capitalist development is shaped historically, through time, by the search for profits.[49]

Economist James Crotty has devoted some research into the relations and syntheses between Minsky and Marx, but before giving Crotty's analysis to join Minskian and Marxian analysis, I will sketch out how Marx's theory of financial instability being formulated in Volume III of *Capital* represent a strong theoretical foundation for such a synthesis. There is a very close analysis to Minsky's Financial Instability Hypothesis to be found in this volume. There is a clear link in Marx's framework for the a similar hypothesis of endogenous fragility, when he says, "Capitalist production constantly strives to overcome these barriers [to accumulation], but it overcomes them only by means that set up the barriers afresh and on a more powerful scale. The *true barrier* to capitalist production is *capital itself*. [Emphasis original][50] This clearly

---

[48] Minsky, "Money and Crisis in Schumpeter and Keynes," 121.
[49] Charles J. Whalen, "Integrating Schumpeter and Keynes: Hyman Minsky's Theory of Capitalist Development," *Journal of Economic Issues* XXXV, no. 4 (December 2001): 808.
[50] Marx, *Capital: A Critique of Political Economy, Vol. 3*, 359.

establishes a similar analysis to Minsky's theory of increasingly precarious crises after the resolution of previous crises.

Marx assumes a highly developed credit system to discuss financial instability, much like Minsky, and also argues for the endogeneity of money creation – also like Minsky later does. Marx has a conception that combines nicely with Minsky's hedge finance and subsequent "euphoric boom:"

> In countries where credit is highly developed, we may assume that all money capital available for loan exists in the form of deposits with banks and money-lenders. This at least holds good for business as a whole. On top of this, in times of good business, before *speculation* properly so-called gets going, the greater part of the circulatory function will be performed, with credit easy and confidence growing, simply through a credit transfer, without the invention of metal or paper money [emphasis added].[51]

In these calm periods, Marx is arguing that the circulation of capital has nothing to do with actual money, which again would give reason to doubt the monetarist narrative of market volatility being determined by the money supply. The accumulation of credit during the euphoric boom becomes just as good as money, as there is little question as to the value of the underlying asset, and the accumulation of financial instruments such as securities becomes indistinguishable from the imperative in Volume I of *Capital* to accumulate, to which Marx concludes, that "there is thus an element in the accumulation of money capital that is essentially separate from the genuine accumulation of industrial capital…"[52] If the mode of capitalism has become financialized, we should expect to see credit instruments outpacing real production, and indeed this is the case to a very large degree. According to the Bank of International Settlements, there is close to 708 Trillion USD in over-the-counter derivatives outstanding.[53] Over-the-counter

[51] Ibid., 632.
[52] Ibid., 637.
[53] *BIS Quarterly Review* (Bank for International Settlements, December 2011), http://www.bis.org/statistics/otcder/dt1920a.pdf.

instruments are private contracts between clients and brokers outside of central auction markets like the NYSE, but who nevertheless have the capability to draw up and publish contracts.[54] This endogenous and diffuse way of offering financial products will provide the basis for skepticism about the effectiveness of fiscal policy in the next chapter. Meanwhile, the World Bank estimates global GDP to be somewhere around 68 Trillion USD.[55] The claims on real assets through financial instruments outpace the real production by numerous factors.

But we must be careful, because Marx – and later Minsky – talks about a boom period before speculation properly so-called. Adding Minsky's analysis here on hedge finance helps us understand Marx's conceptual distinguishing between the two. As Minsky's framework in Chapter 1 tells us, the euphoria emerging from hedge finance conditions is predicated on a belief that the business cycle has been beaten and that asset prices will continue to rise. In light of this social psychological effect, even if financial claims outpace real production and asset values, the true underlying value of the asset will continue to rise and catch up to the financial claims on the capital flows to come out of that asset. This is yet another good reason to reincorporate a theory of "value" in political economy, as it can prevent a delinking between the nominal value of assets, denominated in price, and the value of these assets.

Marx also has a theory of speculative finance that fits well in the mode of finance in Minsky's model. In Marx's speculation properly so-called, the still cheap availability of credit means that even in the face of diminishing profits, claims to future capital flows can still be made: "It is possible to pay high interest with a high rate of profit but a declining profit of

---

[54] Henwood, *Wall Street*, 18.
[55] *GDP (current US$)* (World Bank, 2010), http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries?display=graph.

enterprise. It can be paid – and this is partly the case in periods of speculation – not out of profits but out of the borrowed capital itself, and this situation can last a good while."[56]

In this phase of finance in Marx there is a clear link to Minsky's notion of Speculative Finance. As mentioned in Chapter 1, Speculative Finance signals a shift in the soundness of the financial system. When credit is still cheap, firms tack on even more debt to be serviced in the hope that there is a long term payout on assets, or a short-term windfall that helps firms re-establish cash flows for payment commitments out of profits once again, when the firm is in a hedge position. It is worth paying special attention to Marx's terminology that is different than what one gets out of Minsky's: and that is the seemingly curious position of there being a high rate of profit generally, but a declining profit of enterprise in a given specific industry. This is Marx's general law of the tendency of the rate of profit to fall. He notes: "This gradual growth in the constant capital, in relation to the variable, must necessarily result in a *gradual fall in the general rate of profit*, given that the rate of surplus-value, or the level of exploitation of labor by capital, remains the same [emphasis original]."[57] There is an immediately apparent link to the Schumpeterian analysis presented above, that from a Marxian perspective, capitalists might well try to evade the gale forces of creative destruction if it cuts into profits. Marx suggests in Volume I of *Capital* that nevertheless, if one capitalist adopts a labor-saving technology, regardless of its impact on the rate of profit, then because of the laws of competition among capitalists, they will be compelled to adopt the new technology.[58] This tendency is not linear however, and financial instruments are key. Marx also says that with a decrease in the rate of profit, capitalists much

[56] Marx, *Capital: A Critique of Political Economy, Vol. 3*, 645.
[57] Ibid., 318.
[58] Marx, *Capital: Volume 1: A Critique of Political Economy*, 436.

enlarge constant capital to enlarge the absolute amount of profit.[59] While this might seem counterintuitive on first glance, as even orthodox economic theory holds that as productivity increases the prices of commodities would be pushed down, Marx applies credit markets and financial instruments like securities to sustain increased absolute rates of profit, noting that it is "capital advanced," or credit, that accounts for claims on future capital flows to reflect present profits.[60]

In a Marxian light, the speculative phase of finance takes on a slightly more sinister tone than one finds in Minsky. Marx argues that capitalists are not crossing their fingers, hoping that some of their positions provide a bonanza windfall in the end, but rather are fully aware of the disconnect between the real value of assets and the nominal value of financial assets.[61] The speculative mode of finance, then, would merely be when paper-holders can maintain the value of that paper long enough to push their positions off.

Finally, there is also a similar relationship between Minsky's Ponzi Finance and Marxian analysis. The comparison between these two rests on the ability of finance to move across time. Marx tells us: In times of crisis the demand for loan capital, and with it the interest rate, reaches its maximum; the rate of profit as good as disappears, and with it the demand for industrial capital. In times such as these *everyone borrows money simply to pay* to settle commitments already entered into." [Emphasis added][62] The temporal aspect of cash flows limits the ability for parties to get out of their contracts: as Minsky reminds us, they must either take on new debt just to make their payments, or sell off capital assets at increasingly deflated prices, introducing an Irving Fisher style debt-deflationary spiral.

---

[59] Marx, *Capital: A Critique of Political Economy, Vol. 3*, 328.
[60] Ibid., 337.
[61] Ibid., 350.
[62] Ibid., 645.

Much like Marx's variation on Speculative Finance that has a more mendacious undertone of credit issuers swindling people to whom they sell securities, in a period of Ponzi Finance, this swindling becomes increasingly naked for Marx, and the interests of the ruling class crystallize when there is a clamoring for intervention to protect credit money at the expense of real assets:

> A devaluation of credit money (not to speak of a complete loss of its monetary character, which is in any case purely imaginary) would destroy all the existing relationships. The value of commodities is thus sacrificed in order to ensure the fantastic and autonomous existence of this [financial] value in money. In any event, a money value is only guaranteed so long as the money itself is guaranteed.[63]

A point of departure between the two thinkers is become apparent, and this is that Marx focuses on the destruction of social relationships. Minsky confines his analysis to suggest that when Ponzi Finance finally collapses, the Federal Reserve must step in, at the behest of the federal government, to recapitalize firms in order to restore them to a hedge finance position. What Marx is suggesting here is that such a recapitalization or bailout is the government explicitly favoring the financier classes, making their positions whole, all the while sacrificing the asset development in the real sector to do so. The next chapter will display how this analysis bears out in the fiscal policy of the United States, but suffice it to say for now that Marx, like Minsky, argue that the guaranteeing of credit money by the state sets the stage for increasingly large crises down the road; Marx noting that the total amount of money has nothing to do with the amount of circulating credit.[64] This relationship presages a critique of Minsky, that focusing on the financial relations between the *rentier* class and the state often overlooks the underlying

[63] Ibid., 649.
[64] Ibid., 656.

social relations, which may be decimated even if financial positions are shifted from Ponzi back to hedge units.

Further, when Marx deals with the temporal aspect of credit along with its permeation alongside productive capital leads to increasing breaking points in payment chains, leading to general crises:

> The chain of payment obligations at specific dates is broken in a hundred places, and this is still further intensified by an accompanying breakdown of the credit system, which has developed alongside capital. All this therefore leads to violent and acute crises, sudden forcible devaluations, an actual stagnation and disruption in the reproduction process, and hence to an actual decline in reproduction.[65]

Thus, in a Marxian analysis, it is unhelpful to cleave off finance from the economy, since financial apparatuses, as payment chains break, diminish real production.

Minsky wrote little specifically on Marx, with the occasional references to his writings, and only a handwritten note referring specifically to *Capital* on the total quantity of money argument presented in chapter 3 in Volume I.[66] However, there has been work done to integrate Minsky's analysis through the lens of Marxian political economy, in particular the work of Economist James Crotty. His overarching argument is that much of orthodox Marxian political economy fails to take into account the importance of financial structure, and that Minsky overstates the primacy of financial markets, not seeing any cause for instability in the real sector, often constructing a political economy that does not explicitly admit the existence of the world of production. A properly robust Marxian crisis theory must, in this case, take into account both the world of finance and its fictitious capital, as well as the real world of production. It is with this synthesis that Minsky's analysis can become especially cogent. It is in this spirit that I argue, based on Minsky's explicit attempt to synthesize Schumpeter and Keynes, that we can include

[65] Ibid., 363.
[66] Handwritten note. No Date. Archival.

more of the Institutionalist economics traditions, including Marx, and that Marx is thus not the hidden subject of Minsky's writing, but the real production flipside to Minsky's financial analysis.

Crotty lays out that Minsky is adamant about his contention that the only place from which a crisis can emerge is in the financial relations between parties, an important point of departure from traditionally Keynesian theorizing about the marginal efficiency of investment being affected by real production decisions.[67] Crotty takes this use of the "Kaleckian constant-mark-up theory" of profits to not explain how the secular economy can suffer fluctuations or instigate crises.[68] Crotty takes both this finance-first approach as well as the real-sector-first approach of much of orthodox Marxian economics to be privileging one aspect of capital flows over another, when a synthesis is more appropriate.[69]

It is clear from the analysis of *Capital* Volume III presented above that Crotty correctly warns Marxian economists not to ignore the financial determinants of instability. Before getting into the synthesis between the two, Crotty gives a persuasive account for how secular instability may emerge as a consequence of social relations from what might otherwise be considered purely financial, when viewed through the lens of a Marxian analysis. He outlines the three circuits of capital in Volume II of *Capital*: money capital, productive capital, and commodity capital. I will take each in turn.

In the money capital circuit, the capitalist throws money into circulation, purchasing the two commodities of labor and the means of production, and through the production process comes out with a valorized commodity to be sold for more money than initially put into

---

[67] Crotty, "Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy," 302.
[68] Crotty, "Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy," 302.
[69] Ibid., 305.

production. [70] In Crotty's analysis the wage bill is a crucial component to understanding profit margins, since an increase in the cost of labor may reduce the amount of valorized money for the capitalist (outside of a reinvestment of cheaper/more productive constant capital, or a general price fall), and as discussed above, this can throw the system into disarray. Thus, the strength of union power to influence the wage bill plays a crucial role in determining the rate of profit, thus determining the rate of investment, and potentially exacerbating crisis conditions.[71] It is not a logical leap to also see how in the face of a strong labor movement that the expected increase in the wage bill will damper enthusiasm of accumulation, with Crotty noting: "When the real-wage gains outstrip productivity growth the profit share falls, the rate of profit declines, and the pace of accumulation falters."[72]

The second circuit is productive capital. In this circuit, a production process yields a valorized commodity and with the money profit from the money capital circuit, some of that is reinvested into either an expansion or recomposition of the constant components of capital, the means of production and/or labor. Marx explicitly lays out how an interruption in this chain can lead to a crisis:

> The act C'-M' [the transformation of the valorized commodity emerging from the production process into profit] merely assumes that C' is transformed into money, is sold, so that the circuit of the capital value can continue, and the surplus-value can be consumed by the capitalist. The commodity is of course bought only because it is a use-value, i.e. it is suitable for some kind of consumption, productive [reinvestment] or individual [by capitalist or laborer]. But if C'

---

[70] Marx, *Capital: Volume 2: A Critique of Political Economy*, 124.

[71] Crotty, "Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy," 308.

[72] Ibid., 310. It is also worth noting that some Post-Keynesians did indeed take the social relations of the wage bill and labor more generally seriously. In Robinson's 1977 article *What Are the Questions?* she argues that Keynesian analysis would also lead one to the conclusion that inflation was not the result of the quantity theory of money, or too much money chasing too few good, but rather a strictly political phenomenon where the wage bill outstripped real productivity, driving prices upward (1329). This properly political sense of an understanding of inflation, however, Crotty argues, would not be entertained by the likes of Keynes, Minsky, or Kalecki, but some of these reflections by Post-Keynesian economists lead one to believe that Crotty might be overstating his critique of Keynesians just a bit.

> circulates further... – initially at least – the continuation of the circuit of the individual capital… The whole process follows its course, and with it also the individual consumption of the capitalist and the worker that is conditional on it. This point is an important one in considering crisis.[73]

In other words, if the capitalist is unable to turn the commodities coming out of production into money, this must diminish the production process, which would confound financial expectations and cause a panic when contracts come due. Crotty reminds us of the new implementations in the means of production and the dangers of Schumpeterian creative destruction, by suggesting that maximizing productive capital concerns "…the organization of the enterprise, the choice of production technology and its embodiment in capital goods and the organization and supervision of the labor process, including its effect on labor 'discipline' and labor productivity."[74] With the coercion that capitalists are placed under to adopt new techniques that undermine the rate of profit, there is yet another real-sector agitator to the expectations of financial commitments.

Finally is the sphere of commodity capital, where the valorized commodity is converted into money and invested in an expanded scope of production scale, yielding a further absolute amount of valorized commodities.[75] Marx continues that the production on a larger scale to increase valorization of those commodities lowers the price of those commodities, some of which obviously must be for consumption of capitalists and workers: "For this reason, classical economists found it all the more easy to ignore the specifically capitalist form of the production process, and to present production as such as the purpose of the process – to produce as much and as cheaply as possible, and to exchange the product for as many other products as possible, partly for the repetition of production… partly for consumption…"[76] Crotty uses the modern

---

[73] Marx, *Capital: Volume 2: A Critique of Political Economy*, 155.
[74] Crotty, "Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy," 308.
[75] Marx, *Capital: Volume 2: A Critique of Political Economy*, 167.
[76] Ibid., 172.

language of aggregate demand to show how commodity capital is, socially, a distributional circuit, noting that the there must be income distributed for consumption among classes.[77] This makes sense in that workers must have some money to consume the commodities that they produce. If workers do not get enough of a share of income relative to their productivity or the prices of the commodities they create, again, in a purely non-financial way, crises may emerge.

One thing that is important to keep in mind with this Marxian analysis is that these three circuits of capital are happening simultaneously and any break in these cycles can set a motion toward crisis. But it is also clear that this secular rationale for crisis connects neatly with the financial fracture lines discussed above. After all, the inability of a capitalist to turn a valorized commodity into money, or a labor movement raising the wage bill and in turn lowering profit margins, or a wildly disproportionate income distribution between classes all throw already uncertain financial contracts into the stronger possibility of devaluation and an inability to make payment obligations.

Crotty is clear that a more robust Marxian theory of crisis should have a theory of investment, and that theory of investment can be developed through an incorporation of Minsky's financial instability hypothesis.[78] This chapter will thus end on a reading of Crotty's use of Minsky's investment theory to supplement a Marxian crisis theory. It will display how Minsky's analysis from Chapter 1, when combined with the analysis found in the financial crisis literature in Marx, yields a strong critique of financial capitalism.

As Crotty finished his critique of Minsky by suggesting that there is not enough said about the real sector of the economy, Crotty elsewhere goes to lengths to show how a Marxian

[77] Crotty, "Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy," 310.
[78] Crotty, "Rethinking Marxian Investment Theory: Keynes-Minsky Instability, Competitive Regime Shifts and Coerced Investment," 17.

analysis must also be clear about a theory of finance, noting that: "Marx did not relegate his discussion of financial intermediation to the end of *Volume Three* because circulation is of secondary importance in his crisis theory; rather, its location was dictated by the fact that financial intermediation could not be analyzed until the concepts of capital, interest-bearing capital and surplus value had been theorized."[79] Marxian analysis also sheds light on the endogeneity of capitalism's instability, differentiating it from other economic theorizing that might otherwise try to cleave off financial instability for an "otherwise crisis-free capitalism."[80] This is echoed in Marx, where he tells us "no bank legislation can abolish crises themselves."[81] This will come to bear in the next chapter, which will consider the usefulness of policy tools in light of endogenous propensity toward crisis.

The very nature of a money as a means of payment economy (as opposed to a money as a more convenient form of barter) introduces the notion of time into capitalism, and thus Marx's eventual movement into financial obligations.[82] Even if the Walrasian auctioneer were to exist and clear a market at any given time, the auctioneer would be unable to incorporate future commitments into that market clearance, leading to market incoherence at anarchic/unknowable price fluctuations.[83] A Marxian analysis gives a picture of a double movement of a capitalist economy with an understanding of finance across time. On the monetary side, there is a contradiction leading to crisis when money as a means of payment is separated from money as a means of circulation. When securities heat up, there is an outpacing of circulation capital to

---

79 James Crotty, "The Centrality of Money, Credit, and Financial Intermediation in Marx's Crisis Theory: An Interpretation of Marx's Methodology", 1985, 5.
80 Ibid., 6.
81 Marx, *Capital: A Critique of Political Economy, Vol. 3*, 621.
82 Crotty, "The Centrality of Money, Credit, and Financial Intermediation in Marx's Crisis Theory: An Interpretation of Marx's Methodology," 10.
83 Ibid., 17.

payment capital, and when the contracts come due, payments cannot be made.[84] On the macro side, it is evident why the first contradiction of circulation and means of payment inevitably diverge: it enables brisk growth of capitalist economies. Financialization enables a fast rate of growth, with increased concentration of capitals and interlocking payment chains, which simultaneously serves to make the whole edifice more fragile, where even minor breaks in the chain can create disastrous results.[85] It ends in a similar state to Minsky's Ponzi Finance, "that phase in the development of an economic downturn in which agents are *forced* to sell commodities to raise the money required to meet contractual commitments… a 'fleeing' to the money form."[86]

This increasing risk of crisis maps on to Minsky's Financial Instability Hypothesis, with the added benefit of a Marxian real-sector theory of crisis to complete the theoretical underpinnings for the possibility of crisis. As this analysis turns toward a historical and political analysis of the limits of fiscal policy and state intervention, it is good to keep in mind a few things from this insertion of Marxian analysis into Minskian political economy. First, there is no primacy to either the real sector or the financial sector: they are co-determining, existing alongside each other historically in a coevolution.[87] Second, any attempt to manage fiscal policy is not one in which instability is eliminated, where the economy is somehow maintained in an eternal Elysian state. Rather, as Minsky stated in chapter 1, the practical best of fiscal policy is one in which instability is managed, setting floors and ceilings of accumulation and devaluation using the coercive power of the state. Third, the goal of political economy ought not be a nostalgic wish for regression. That is to say, the evolution of financial capitalism does not bode

---

[84] Ibid., 19.
[85] Ibid.
[86] Ibid., 20.
[87] Ibid., 23.

well for returning to a different kind of capitalism from the current state of money manager capitalism. The question becomes how to either mange or supersede it, while utilizing the superior Minsky-Marx paradigm of political economy, as opposed to the inability of orthodox economics to tell us much.

## CHAPTER FOUR: The Limited Usefulness of Fiscal Policy

This chapter combines Minsky's third and fourth possible meaning for the term political economy: the analysis of operators in the economy as "profit maximizers" and the economics of policy: i.e. analysis of central banking, fiscal policy. The reason for such a combination is two-fold: first, chapter 2 critiqued the myth of neoclassical equilibrium rationality, so the focus on individuals of economic operators in the economy will instead focus on the relationship between the intended effects of policy on economic entities and what these entities actually do. Second, it builds upon the analysis presented in chapter 3 – particularly of Schumpeter and Marx – that the continual dynamism of finance means policy fixes are at best temporary, or even lagging behind by the time of implementation. This allows a conception of fiscal policy that extends beyond prescriptions that somehow "fix" an economy, along with the possible disappointment if those prescriptions are not followed. In other words, combining a policy critique with the real world relations of policy prescriptions undercuts both an appeal to universal laws of human action as well as an attempt to scapegoat the public when policymakers are unable to make a political economy hum along.

The analysis presented in this chapter will be chronological, mirroring Minsky's career in the aftermath of the New Deal, through the years in which he develops his critique of Reagan's economic administration. This presentation will establish various points of Minsky's critique of American capitalism to examine the current context of what he calls money-manager capitalism. First, it will augment Minsky's argument that there was no "golden age" of American capitalism after the World War II/New Deal response to the Great Depression, but rather that American capitalism found itself at a "practical best."[1] Second, it will display how much like financial commitments themselves, policy prescriptions for given social conditions are dependent upon the conditions faced by previous policy prescriptions. Therefore to diagnose the current condition of financial capitalism we must more fully understand the policy/institutional evolution that allowed the current money-manager capitalism to emerge. Finally, an analysis of fiscal policy of the past eighty years will allow me to establish some underlying ideological assumptions of the policymakers, which will need to be confronted in order to formulate a political program.

Since Minsky models his political economy on the Keynesian program of the endogenous threat of economic depression and a moving equilibrium that could come to rest in stagnation, Minsky's policy analysis begins at the democratic response to the Great Depression, noting that, "We have to go back to square one – 1933- and build a structure of policy that is based upon a modern understanding of how our type of economy generates financial fragility, unemployment, and inflation."[2] The first thing to note from this sentiment is that Minsky once again affirms the *endogeneity* of instability. The potential for financial crises are not from uncontrollable external shocks, but rather emerge from a fundamental flaw of capitalism itself. The more important aspect from this "Year Zero" of 1933 is a nod to Minsky's political economy that emerges from Keynesian understanding form the possibility of a prolonged economic depression with high involuntary unemployment. As discussed in Chapter 2, most orthodox and (neo)classical economic theory, and most directly Say's Law, calls for a policy of *laissez-faire* economic agenda, which is a fuzzy hodgepodge of government non-intervention sentiments, more the results of a collaboration of "those who do well under controlled capitalism" and by economists "who do well by catering to those who can pay for such views" than any serious kind of policy

[1] Minsky, "The Economic Problem at the End of the Second Millennium: Creating Capitalism, Reforming Capitalism, Making Capitalism Work," 2.
[2] Minsky, *Stabilizing an Unstable Economy*. 323.

program to protect against capitalist instability.[3] The most effective capitalist has a dual task. They communicate the non-policy policy of *laissez-faire* while simultaneously not participating in it, instead setting the rules of the game under the guise of good policy.

### 4.0 Pre-1933 Fiscal Policy, or the Lack Thereof

The discussion of pre-1933 policy will do well to address the inadequacy of the third possible definition of political economy offered by Minsky: individuals as "profit maximizers." Much like (neo)classical theory, the resulting policy prior to 1933 rests on a great deal of heroic assumptions about the depth of knowledge possessed by economic actors and the unconscious movement of the actions of such subjects. As such, the policy was paradoxical: the best economic policy was no economic policy. Philosophically, this was the thrust of the teleology of markets; an immanent instrumentality or market rationality that called forth an anti-policy policy. Keynes appropriately traces this teleology from the moral sciences of Adam Smith to the do-nothing empiricism of academic economic policy:

> Suppose that by the working of natural laws individuals pursuing their own interest with enlightenment in conditions of freedom always tend to promote the general interest at the same time! Our philosophical difficulties are resolved – at least for the practical man, who can then concentrate his efforts on securing the necessary conditions of freedom. To the philosophical doctrine that Government has no right to interfere, and the divine miracle that it has no need to interfere, there is added a scientific proof that its interference is inexpedient.[4]

This is why "individuals as profit maximizers" can and has been argued to be the basis for political economy. Keynes argues that this of course is not the case, that any given individual's interests may be different from or antagonistic toward the social interest.[5]

---

[3] Hyman P. Minsky, "A Positive Program for Successful Capitalism" (Hyman P. Minsky Archive. Paper 74., 1995), 13, http://digitalcommons.bard.edu/hm_archive/74.
[4] John Maynard Keynes, *The End of Laissez-Faire: The Economic Consequences of the Peace* (BN Publishing, 2009), 15.
[5] Ibid., 36.

Minsky deploys Keynes' analysis to show how Keynes was able to critique the doctrine of *laissez-faire*, but that it is also clear that Keynes' critique did not engender a specific policy response.[6] Minsky echoes Keynes' critique concerning the logical inconsistencies of individualist *laissez-faire* writ large, focusing especially on the Benthamite idea that if the role of the state is to provide for the greatest good for the greatest number, the state would be interested in income redistribution on, if nothing else, purely utilitarian grounds, under the assumption that the rich enjoy money less the more they have of it; the inverse being true for the poor.[7] Profit maximizers at this point tell us nothing about the economy at large and how it is performing or should be performing. This gives us insight into why Minsky picked 1933 as Year Zero. While there were plenty of depressions prior to 1933, it was not until the Great Depression that professional economists sought to utilize "scientific" means of state intervention, that path having been barred until that point.[8] Fiscal policy is thus by its nature interventionist, and it was the entrance of policy itself that heralded the end of *laissez-faire*, not simply Keynesian economics.[9]

But before diving into what kinds of policy emerged after the Great Depression, through the New Deal and into the current context of neoliberalism, there is a glaring omission that will shade the discussion: the lack of a discussion of social relations. Both from Keynes' own works and Minsky's interpretation, we get a picture of a person who was at the very least aware of the degradations of social relations wrought by *laissez-faire*, but then answered the urgent call of the Great Depression to begin fiscal policy with the *General Theory*, neglected that former area of

---

[6] Hyman P. Minsky, "The End of Laissez Faire: 1987 Style" (Hyman P. Minsky Archive. Paper 317, 1987), 3, http://digitalcommons.bard.edu/hm_archive/317.
[7] Ibid., 5–6.
[8] Ibid., 2.
[9] Minsky argues that it was not until after Keynes' *General Theory* had been published that Keynes became a Keynesian himself; a sentiment paralleled in his own life, where Minsky noted that it took him a long time to become "Minskian."

study. Keynes never gives the political or social stakes in a regime of *laissez-faire*, nor does he pursue which anointed individuals get to pursue their personal interest, and if/how/why the state should step in to protect these people.

I will use Karl Polanyi's analysis in *The Great Transformation* as well as Geoff Harcourt's *The Illusion of Free Markets* in order to display the underlying social relations in a regime of *laissez-faire* and how these underlying social relations are enforced or legitimized through the use or non-use of state power, and that the social relations that are reinforced through fiscal policy are still prevalent. So while 1933 can indeed be argued as a turning point toward an officially interventionist fiscal policy, the underlying social relations were not superseded by some historical awakening of the policy-maker.

Polanyi's analysis in *The Great Transformation* focuses more explicitly on the social relations of *laissez-faire* policies. He would agree with Keynes as far as a critique of the unscientific nature of such a regime, noting: "Poverty was Nature surviving in society; its physical sanction was hunger… All that was needed was the 'scientific and economical' treatment of the poor."[10] Polanyi brings front and center the degraded social relations brought on by *laissez-faire*, arguing that such a Benthamite understanding of the relations of humanity and market was the inverse of the lived experience of the subjects under such a regime. People did not find the fullness of their existence through participation in market mechanisms, but rather were constantly trying to negotiate ways to protect their already embedded social relations in the face of the encroaching market system. This is Polanyi's famous double movement.[11] He goes deeper than Keynes does on his critique of a Benthamite calculus as a simple unscientific

---

[10] Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed. (Beacon Press, 2001), 122.
[11] Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed. (Beacon Press, 2001), 136.

conflation of the individual and the social benefit to show the political aims of Bentham: "*Laissez-faire* meant to Bentham only another device in social mechanics. Social not technical invention was the intellectual mainspring of the Industrial Revolution."[12] In other words, Polanyi shows how in the Benthamite iteration of *laissez-faire*, the adherence only produces impoverished citizens who are then forced/free to work in the factory. That is Bentham's science and economy.[13] By disguising social relations as natural relations, regardless of the scientific validity, *laissez-faire* became a dominant ideology for the reconfiguration of social relations.

In Harcourt's recent *The Illusion of Free Markets*, we are also shown the limits of Benthamite utilitarianism, which the theory itself was built as a convenient buttress to the social engineering underway in rapidly industrializing Britain.[14] Harcourt's analysis attempts to bring out the direct link between such Benthamite political economy and modern iterations of it that do shape policy, but for the scope of this project it is enough to say that Keynes gives a too-flattering timeline to economic policy-makers. It may be true to say that before the early twentieth century there was no economic policy *per se*, but there is the legitimation or delegitimation of certain social relations that accomplish the same ends as any kind of post-1933 fiscal policy.

None of this is to malign Bentham – Harcourt similarly lays out the myriad ways in which Bentham is used, and it would be irresponsible to point to one person as some kind of patient zero for the sorry state of policy today. However, the naturalization/essentialization of

---

[12] Ibid., 124.

[13] This has an analytical link to Part Two of Volume I of Marx's *Capital* in two ways. First, the double movement echoes the double freedom of newly formed working class: the worker must be free to offer labor-power at market price, and must simultaneously be free from ownership/responsibility over the means of production (272-3). Second, Marx's project will take classical political economy on its own terms, so he will assume "…Freedom, Equality, Property and Bentham… Bentham, because each looks only to his own advantage" (280).

[14] Bernard E. Harcourt, *The Illusion of Free Markets: Punishment and the Myth of Natural Order* (Harvard University Press, 2011), 116.

economic principles sets an ideological prism through which we are invited to perform social analysis. If we consider Polanyi's critique of the Speenhamland aid-in-wage law coupled with Harcourt's analysis of Bentham's reaction to the resulting Poor Laws show how even a tangential theory like *laissez-faire* in the case of political economy can color how we might be asked to perceive the failure of early attempts at poverty relief as a full steam ahead endorsement of the encroachment of market society. Social ailments begin to look like market failures/inefficiencies instead of social ailments.

In the Speenhamland system, parishes would distribute an aid-in-wage regardless of the worker's wage so as to ensure that every worker was able to afford to feed themselves and their families.[15] Polanyi offers this case study to show how the double movement looked historically, noting that in the first place, the Speenhamland laws were not uniform, and the amount of aid varied wildly among the various parishes responsible for offering wage supplements, again echoing uneven development.[16] Thus, Speenhamland laws were a hodgepodge *ad hoc* response to protect society against the encroachment of market society. Polanyi notes:

> Under Speenhamland, society was rent by two opposing influences: the one emanating from paternalism and protecting labor from the dangers of the market system; the other organizing the elements of production, including land, under a market system, and thus divesting the common people of their former status, compelling them to gain a living by offering their labor for sale, while at the same time depriving their labor of its market value.[17]

The double movement is in full view: Speenhamland was not a policy guidance to maximize the efficiencies of market society, but a poorly thought out and ultimately disastrous attempt to protect the emerging laborers in their soon to be disrupted social embeddedness. It was poorly thought out, however, not because it was bad policy, or anti-capitalist, but because it was pre-

---

[15] Ibid., 82.
[16] Ibid.
[17] Ibid., 84.

capitalist, trying to protect workers from pauperism as well as needing to subsist on wages.[18] The consequence was lowering productivity, since the workers did not have their wages tied to the amount they produced; it pushed wages down, since employers knew that no matter how low they pushed the wage, the parishes would step in and fill in the gaps. These two phenomena were locked in a negative feedback loop; with lowering productivity, employers could hire more laborers, pushing down wages, and with a glut of labor, further drive down productivity. This leads to a huge number of people on the rates. While it may be technically correct that Speenhamland is not an example of fiscal policy, *laissez-faire* nevertheless helped to determine social relations that formed working classes.

Polanyi argues that the amended Poor Laws of the 1830s did away with the barrier of the emergence of a market society that Speenhamland was trying to hold back in the interest of protecting already-existing social relations.[19] The challenge was then to protect wage laborers against some of the less savory aspects of the market, such as unemployment. Harcourt makes the compelling addition to this argument that in a Benthamite fashion, the Poor Laws did more than just speed up the process of establishing the working class in a new market society, but also that Bentham himself argued that the doctrine of *laissez-faire*, enshrined in the Poor Laws, was merely a convenient economic component to a broader social vision, and that a market society needed a heavy coercive disciplinary apparatus to enforce the new social relations of market society.[20] Free markets may not be entirely free from state interference, but there is a very visible hand of the state in creating the punitive social relations to reinforce the concept.

---

[18] Ibid., 87.
[19] Ibid., 143.
[20] Bernard E. Harcourt, *The Illusion of Free Markets: Punishment and the Myth of Natural Order* (Harvard University Press, 2011), 103–4.

With the foundations of *laissez-faire* from Speenhamland through the Poor Laws in mind, this brings us back to Keynes' critique of *laissez-faire*. His argument is at its most helpful when he displays how the Benthamite Utilitarians eventually were able to form a political economy that produced a cohesive vision of *laissez-faire*, a far cry from the hodgepodge application that the earliest formulations enjoyed. Keynes traces this trajectory to the mid-1800s, through a reading of Martineau and Marcet, where there is a cognitive unity between the actions of individual economic actors and the economic well being of the state.[21]

The drawback of Keynes' analysis is that it is an exercise in intellectual history, not a penetrating social analysis. Indeed, Keynes only really offers the critique of *laissez-faire* to be, most charitably, a protean intellectual forerunner to economic and fiscal policy proper. In so doing, the text does not expand its scope of analysis to look at the reconfigurations of social relations. Keynes believes it is enough to focus instead on clearing away the underbrush of the "metaphysical" principles of *laissez-faire*.[22] Of course he supplements his own ideological foundation of active policy makers when he suggests: "These reflections have been directed towards possible improvements in the *technique* of modern Capitalism by the agency of collective action [emphasis added]."[23] He supplants the principle of *laissez-faire* with the principle of managed capitalism, noting that he longs for the day when humanity no longer considers *whether* capitalism is the most efficient economic system (and it is worth noting here that he does not define efficiency outside of the tautological "attaining economic ends") but that the argument turns into one over how best to administer capitalism.[24]

---

[21] Keynes, *The End of Laissez-Faire: The Economic Consequences of the Peace*, 25.
[22] Ibid., 36.
[23] Ibid., 43.
[24] Ibid., 44.

The administration is not an unimportant question, of course, especially considering the imperative of how to respond to the very real possibility of a depression. But depressions existed pre-1933 and the state, as shown in Speenhamland and the Poor Laws in particular, has always had an interventionist stance in the economy, which has the consequence of a de facto social and economic policy. To borrow Keynes' attitude, the state, prior to 1933, adopted improvements in the technique of *laissez-faire*. The social relations that resulted as a consequence of these policies should set the stage for the evolution of capitalism, and are not some prehistoric phenomena, relegated to an intellectual exercise of political economy, finally giving way to fiscal policy when the time finally came. Nevertheless, I argue that fiscal policy after 1933 was vitally changed, though it is a change in degree rather than a change in kind. In chapter one I lay out how Minsky establishes the historical shift at the Great Depression as the advent of managerial capitalism evolving from its previous form of industrial. This is a much more plausible narrative than the ascent of the fiscal policymakers, in to save the day. There were massive depressions before 1933, after all. They are well chronicled in Kindleberger, Reinhart and Rogoff, among others. Whereas previous depressions engendered a refusal to act from the state, the protracted depressed state in the early 1930s no longer left the markets to "fix" themselves: they must be managed. The attitude that the world began anew with the formation of policy responses to the Great Depression further bolsters my argument made in chapter two, that this also represents an attempt by the academic discipline of economics to pull away from its moorings in the social sciences and became something quantitatively different.

### 4.1 Responding to the Great Depression: The Birth of Fiscal Policy

Minsky begins with 1933 as the beginning of a new formulation of American capitalism. To do this, he deploys a two-pronged approach. First is the argument that capitalism in 1933 was the nadir of the failure of capitalism brought on by the collapse of 1929 (failure here meaning capitalism's inability to "deliver the goods"). The second is that the policy solutions pursued by the United States were not Keynesian (at best, he will refer to them as pre-Keynesian), and that this hodgepodge approach to policy fixes resulted in a "practical best" for American capitalism: not a golden age imagined by many.

When Minsky says that capitalism was a truly failed order by 1933, he is making the argument in terms of social relations rather than in some kind of abstract model failure, noting that, "An enormous impoverishment had taken place; more than one third of the nation was ill fed, ill housed and ill clothed. American capitalism was a failure in early 1933."[25] This attitude toward the social failures of capitalism informs Minsky's critique for the abysmal performance of capitalism at the onset of the Great Depression and its somewhat better response coming out of World War II. The way to fix American capitalism, for Minsky, must then feed, house and clothe Americans. He would eschew many orthodox policy suggestions, focusing on how to achieve these tangible results. I will focus on a few of his policy areas, although they will necessarily overlap: employment, poverty, and income distribution.

Employment/unemployment is a vital, yet contested metric. A brief exposition of the Non-Accelerating Inflation Rate of Unemployment (NAIRU, and is an updated version of classical political economists' vision of natural unemployment being a byproduct of the nation's moral fiber) shows some initial strains of the limited usefulness of policy. This metric seeks to approach the lowest level of unemployment possible that is not inflationary, since the famous Phillips Curve makes such a relationship iron-clad.[26] Consider the assumptions being made,

[25] Hyman P. Minsky, "March 1933/March 1993" (Hyman P. Minsky Archive. Paper 264, 1993), 1, http://digitalcommons.bard.edu/hm_archive/264.

[26] Abba P. Lerner, *Flation: Not Inflation* (Penguin (Non-Classics), 1973), 131. Lerner's exposition of the Phillips curve shows how the metric can be both logically and mathematically sound and at the same time practically

ideologically and empirically. Ideologically there is a presupposition that in a market society there must be some level of unemployment, and that this unemployment is the cost of low inflation: and the tradeoff is not immediate; full employment may be attainable without inflation in the short run, but eventually inflation will sneak up on the society that dares break this mystical barrier.[27] This is a marked departure from the way Minsky conceives of unemployment in his conception of the failure of American capitalism. The problem of unemployment is not a question of inflationary pressures or other macroeconomic concerns, but rather making sure citizens are fed, clothed, and housed.

Minsky used the concept of involuntary unemployment to make an elegant point about the politics of minimum wage policy, even if perhaps unintentionally. He gives the policy suggestion of certain New Deal programs as being good evidence for the policy of the federal government in the United States acting as the employer of last resort (ELR).[28] The political justification for such a program is through a comparison to other government interventions, with an ELR function essentially using employment as a buffer stock, or setting a floor price, with Minsky noting: "…the terms upon which the government stands ready to employ all is analogous to the farm price support programs."[29] It is an explicitly social analogue to the concept of the government's "lender of last resort" policy, in that if financial markets are rescued during times

---

useless. Lerner's main thrust of this text is that inflation is a politically determined, thus so is the relationship between the two variables, regardless of placement on a curve.

[27] Laurence Ball and N. Gregory Mankiw, "The NAIRU in Theory and Practice," *The Journal of Economic Perspectives* 16, no. 4 (October 1, 2002): 119. This article is a prime example of the assumptions that policymakers deploy in the formulation of policy. It gives a mathematical definition for its assertion that there is indeed a tradeoff between inflation and unemployment (117). Nevertheless, the authors argue that NAIRU is a changing metric, adaptable to the prevailing economic conditions (120). There is a suspicious convenience about an objective metric that can be changed to reflect conditions.

[28] Minsky, *Stabilizing an Unstable Economy*, 341.

[29] Hyman P. Minsky, "Policy and Poverty, Part 3" (Hyman P. Minsky Archive. Paper 10., 1969), 18, http://digitalcommons.bard.edu/hm_archive/10.

of crisis, so too should the labor market.[30] In effect, such a policy would treat employment, not gold or the elusive quantity money, as the nation's buffer stock, and can yield the tangible social benefits of full employment. He gives a stark difference between two paths or pursuing ostensibly the same goal: full employment:

> Two policy strategies for full employment are distinguished. The first, which dominates the policy thrust in the United States since World War II, emphasizes private investment. This strategy reflects an effort to achieve both full employment and accelerated growth. A side effect of this strategy is an intensified tendency toward financial instability, as well as increased income inequality. The second policy strategy, which largely characterized recovery policy in the years just prior to World War II, emphasizes public employment. My argument is that this strategy, appropriately implemented, can decrease inequality by *decreasing capital's share of income*. A public employment strategy also decreases the likelihood that serious financial stringency will occur [emphasis added].[31]

There is no way to appease both finance and the productive sector of the economy and preserve stability for Minsky, and a serious attention to reducing income inequality via public employment must be the flipside of a policy to diminish investment's share of the national product.

Minsky's vision of the government fulfilling this role reads very much like a new New Deal, with a heavy emphasis on public works programs like the CCC, WPA, and TVA.[32] It is important to note the analytical departure present in Minsky's social vision. He does not even consider the Phillips curve to consider any kind of inflationary trade-off to the ELR policy prescription, dismissing NAIRU for being a mathematical normalization of a single (not to

---

[30] Minsky did not fully develop the principle of the ELR, and per Crotty's argument in Chapter 3, Minsky was indeed more concerned with the functioning of the financial markets, leading him to focus on the Federal Reserve's role of being the lender of last resort. However, many of his acolytes, most notably L. Randall Wray, have seized upon the idea of the ELR as central to effective fiscal policy, which will be taken up in the next chapter.

[31] Hyman P. Minsky, "The Strategy of Economic Policy and Income Distribution," *Annals of the American Academy of Political and Social Science* 409, Income Inequality (September 1973): 93–4.

[32] Minsky, *Stabilizing an Unstable Economy*, 345.

mention atypical) historical instance in the mid-1960s that gives little general insight.[33] The social consequence of unemployment is poverty; therefore to alleviate the social ailment of poverty, the government should step in and employ idle labor directly. This tangible policy prescription shows how some engrained ideological concepts can break down with a heterodox social vision. Efficiency, in this case, would have nothing to do necessarily with the productivity of labor, but whether that available labor can find work if they are looking. Besides, Minsky would argue, even if it were inflationary, a meager inflation is a small price to pay for the benefits of maintaining full employment.

This understanding of unemployment informed Minsky's vision of wage and incomes policy as well. Minsky believed that so long as involuntary employment existed (that is, where people who wished to work could not find a job), the real minimum wage was actually zero dollars an hour.[34] Minsky notes that in a society that establishes and maintains full employment, the minimum wage becomes an "anachronism," since if there are unemployed people it does not matter what the minimum wage is, and if everyone who wants work is employed, then the state sets the wage rates through its role as the direct hirer or "employer of last resort."[35] To briefly recall the Speenhamland discussion above, there is a marked difference to how Minsky argues how the state could responsibly make sure workers receive an adequate wage. Whereas the Speenhamland legislation was haphazard and not uniform, relying on parishes to administer the dole in accordance with official decree, the employer of last resort is centrally administered and sets the rates, even if it does not do the hiring directly. Also, whereas Speenhamland legislation discouraged productivity, ELR programs would recapture the public works programs that

---

33 Hyman P. Minsky, "Effects of Shifts of Aggregate Demand Upon Income Distribution," *American Journal of Agricultural Economics* 50, no. 2 (May 1968): 331.

34 L. Randall Wray, "Minsky's Approach to Employment Policy and Poverty: Employer of Last Resort and the War on Poverty" (The Levy Economics Institute, Working Paper 515, September 2007), 13.

35 Minsky, *Stabilizing an Unstable Economy*, 345.

prompted the federal government to directly hire workers for infrastructure or other socially useful projects.

Minsky tells us that poverty is the direct result of uneven income distribution and that any sensible policy (or “war”) to address poverty in the United States would need to have the initial direct impact on raising incomes for the working class in the short run.[36] This is so because the price of labor and the price of capital investment yield wildly different flows. Because capital’s claims on the social output outstrips labor’s by so much, Minsky argues that pump-priming policies of easing credit to lenders and other financial institutions do not do a very good job of achieving higher income streams for people toward the bottom of income distribution.[37] Indeed, in the current context, the Troubled Asset Relief Program bailouts went exclusively to the financial sector.[38] Treasury even notes that while there are still some problems such as unacceptably high unemployment and stagnating wages, the financial sector is strong and interest rates are low.[39] In a Minskian political economy, this is the exact opposite of the kinds of policy the Treasury should be pursuing, instead providing incomes to the unemployed through hiring programs. To achieve those higher income stream for labor, Minsky brings back his suggestion of establishing and maintaining full employment, with a two-facet argument for how well-paying full employment opportunities through employer of last resort programs eliminate poverty: first, the very fact that people are employed at a much higher wage (whatever the “minimum” wage set by the ELR happens to be) than the actual minimum wage of zero during times of involuntary unemployment; second, this full employment changes labor market conditions so that lower wages are pushed up, since private employers would have to at least

---

36 Minsky, “Effects of Shifts of Aggregate Demand Upon Income Distribution,” 328.
37 Ibid., 329.
38 Tim Massad, “New on the Treasury Website: The TARP Tracker,” *Treasury Notes*, June 9, 2011, http://www.treasury.gov/connect/blog/Pages/New-on-the-Treasury-Website-The-TARP-Tracker.aspx.
39 Ibid.

match the wages offered by the ELR to lure workers away, not so that already high wages are driven even higher, by offering bailout money to financial institutions in the hope that they will then be induced to finance positions/offer loans/create jobs.[40]

Before moving on to the post 1970s epoch of Minsky's "money manager capitalism," it is important to note that while Minsky's list of preferred policy implementations coming from 1933-1973 sound like a standard Keynesian argument, Minsky's proposals are far more centralized and more uniformly administered than anything like the American quasi-Keynesian programs which preceded it would have. This is one of Minsky's primary goals, as illustrated in chapter one, to display the misappropriation of Keynes' work in the formulation of public policy. Minsky warns against the false equivalence of "planning" in an economy with Keynesian policies: "The economy is now a controlled rather than a laissez-faire economy; however, the thrust of the controls is not in the direction envisaged by Keynes. Investment has not been socialized. Instead, measures designed to induce private investment, quite independent of the social utility of investment, have permeated the tax and subsidy system."[41] The current structure is an application of the enshrinement of the *rentier*. Therefore, we ought not to simply assume that this period of American capitalism was somehow "Keynesian" because of pervasive government action in the performance of market society. In fact, Minsky is clear that the American response to Keynes and the repackaging of Keynes into the neoclassical synthesis is the analytical groundwork for not only the ISLM demand curves of Hicks-Hansen (a demand curve not found in Keynes' writings and which Hicks later disavowed), to the monetarism of Friedman; all economic programs Keynes would have abhorred.[42]

---

[40] Minsky, "Effects of Shifts of Aggregate Demand Upon Income Distribution," 329.
[41] Minsky, *John Maynard Keynes*, 162.
[42] Hyman P. Minsky, "The Political Economy of Keynesian Theory" (Hyman P. Minsky Archive. Paper 316, 1987), 1, http://digitalcommons.bard.edu/hm_archive/316.

In the above quotation from Minsky, he discusses that a political economy that will minimize instability and steer clear of depressions must have a shift in the distribution of income away from private investment and into labor, through the productive use of assets. This is the thrust of Keynes' euthanasia of the *rentier*, or the diminishing of capital's share in the national product.[43] The move from private investment to public investment is paramount for Minsky, pace Keynes, because of capitalism's fatal flaw: "[capitalism] handles capital poorly."[44] Capital, once again, being the nation's productive assets. In light of this, an employer of last resort policy makes a good deal of sense – and indeed, Minsky argues that such public employment models were by and large effect – but with the advent of money manager capitalism, the United States went in the entirely wrong direction.

That the United States achieved this post-war "practical best" and did not seriously pursue a Keynesian policy goes hand in hand, and ultimately led to the breakdown of the "practical best." Minsky refers to this period of managerial capitalism as the "Keynesian-Rooseveltian policy synthesis."[45] The hodgepodge of programs instituted during the New Deal were not strictly Keynesian, though they did repair social relations on a large enough scale after the great Depression for an accidental practical best to emerge. The flip side of this synthesis, however, is that because it could fulfill neither the neoclassical wishes of the dominant Rooseveltian political economy to keep state expenditure small, nor the Keynesian imperative to use the state to deliver the goods, or perhaps even more accurately, to make sure that if the goods could not be delivered that the state could make sure aggregate income did not collapse, causing

---

[43] Keynes, *The General Theory of Employment, Interest and Money*, 376. Keynes once again asserts his own essential conservatism, however, noting that the process can be gradual, and there is no need for any kind of drastic social or political action. The question of just who will be responsible for the slow, painless euthanasia is left unanswered.

[44] Minsky, *Stabilizing an Unstable Economy*, 369.

[45] Hyman P. Minsky, "The Breakdown of the 1960s Policy Synthesis," *Telos* 50 (Winter 1981-82): 49.

a depression.[46] This result is precisely why Minsky referred to the practical best of the immediate postwar decades as accidental, the synthesis delivered the worst of both worlds, evidenced by the stagflation of the 1970s in the United States. Strictly Keynesian policy would have demanded a reconfiguration of institutions to socialize investment and euthanize the *rentier*, but since: "'liberal' economists of the policy advisory establishment accepted pre-Keynesian economic theory as the apt way to structure the analysis of American capitalism."[47]

It is worthwhile to spend some time to lay out an argument about post-war American capitalism. Far from being some sort of liberal utopia where somehow everything went wrong, Minsky is firm in maintaining that what the United States actually experienced in post-war boom was a "practical best:"

> The 1950s and early 1960s were not a golden age of either capitalism or Communism [sic]. However for the Capitalist countries of the west these years can stand as a "practical best." A practical best is full of difficulties, inequalities and uncertainties; it is not an [sic] Utopian golden age… In the narrow economic sense a practical best is a regime where a close approximation to full employment is realized, where full employment leads to economic growth and where the benefits of economic growth are widely distributed."[48]

It is clear from this that Minsky's worry about the rise of money manager capitalism is not based on a Pollyanna-esque insistence of American capitalism ruined, but that the money manager cannot even approximate a practical best. For Minsky the rise of money manager capitalism is an attempt at a similar kind of policy of non-policy discussed above, a new quasi-*laissez faire*. He bemoans this regression, noting that even in the distinctly American context, the argument for *laissez-faire* is based on an appeal to pre-capitalist thinkers, pointing out that the current context

---

[46] Ibid., 49–50.
[47] Ibid., 50.
[48] Minsky, "The Economic Problem at the End of the Second Millennium: Creating Capitalism, Reforming Capitalism, Making Capitalism Work," 3–4.

of the performance of American capitalism is different from any proclamation from Thomas Jefferson, if for no other reason than almost 200 years separate the two.[49]

If the post-war years of managerial capitalism provided at least an attempt at full employment with social welfare programs mixed in, no matter how hodgepodge, money manager capitalism is a regressive evolutionary shift that ushers in social relations that are profoundly different. Minsky's analysis of money manager capitalism as a quasi-*laissez-faire* regime is convincing when he explicitly states that the change from managerial capitalism to money manager capitalism is a result of a change of focus from institutions in a complex market society, to simply "the markets" themselves, recalling the social engineering of Bentham's England discussed in the first section.[50] We can go even further with this analysis, however, since shift to "the markets" is not a good enough analytical turn to the Institutionalists. It fails to answer the question of who comprises the markets and who sets the rules of contestation/negotiation. It also fails to answer questions pertaining to the flows of capital and where they are being invested. If they are being invested to develop the capitalist assets of the nation or simply to the *rentier*. Such a regime is perfect for masking the domination of the *rentier* class in social relations by obscuring financial relations.

The most effective part of the Keynesian-Rooseveltian policy synthesis for Minsky was the direction of investment in productive uses, thereby building the nation's capital assets, in a purely Keynesian sense.[51] Such public investments strategies are the key consequence for the state acting as the lender of last resort. It will recapitalize firms, but Keynesian policy maintains that the firm ought to be reorganized through bankruptcy by a state holding company. This

---

[49] Minsky, "The End of Laissez Faire: 1987 Style," 14.

[50] Hyman P. Minsky, "Money Manager Capitalism, Fiscal Independence and International Monetary Reconstruction" (Hyman P. Minsky Archive. Paper 12, 1988), 5, http://digitalcommons.bard.edu/hm_archive/12.

[51] Minsky, "The Breakdown of the 1960s Policy Synthesis," 54.

concept will be vital when talking about money manager capitalism and increasing instability. If there is no threat of state reorganization upon recapitalization, there is little reason or firms to try to manage their own destabilizing pursuits.

### 4.2 Money Manager/Neoliberal Policy

Thus the breakdown of the Keynesian-Rooseveltian policy synthesis at the end of the 1970s and into the 1980s saw the advent of money manager capitalism evolve from the former incantation of American capitalism of managerial capitalism. No longer concerned with questions of social responsibility for distribution or even trying to approach full employment, Minsky bemoans the direction of United States fiscal policy in the Reagan regime. It is reasonable to assume that both his magnum opus *Stabilizing an Unstable Economy* and the edited volume *Can IT Happen Again?* were each released in the mid-1980s at least in part as a response to Reaganism, with Minsky even explicitly stating that: “the Reagan road is unfortunately not the right way to go.”[52] This dovetails nicely with other social analyses about capitalism’s evolutions, most notably Harvey’s argument about the advent of neoliberalism in 1973.[53] Pinpointing the date is less important than understanding that instead of the mishmash of planned capitalism euthanizing the *rentier* and socializing investment diminishing the claim of the national product of private investment, the United States fiscal policy was the precise opposite, enshrining the *rentier* as the proper recipient of a vast amount of the distributed social product.

---

[52] Hyman P. Minsky, *Can “It” Happen Again?: Essays on Instability and Finance* (M.E. Sharpe, 1982), xxiv.

[53] David Harvey, *A Brief History of Neoliberalism* (Oxford; New York: Oxford University Press, 2005). Harvey makes a persuasive argument about the retrenchment of class power in the past few decades, but there is a bit of nostalgia for the pre-1973 configuration. At any rate, Minsky’s development of the shift from managerial to money manager capitalism, enshrined politically by the Reagan regime, gives a good institutional evolutionary narrative.

Minsky lays bare the new relations. Capital flows are not contingent on the production of assets or productivity (which is troublesome in a purely Keynesian definition of what capital actually is) but rather on the investment decisions made by the money managers. Minsky is worth quoting at length:

> The new money manager financial structure is based upon mutual, pension and trust funds. These funds are arrangements through which the ultimate beneficiaries delegate the management of their wealth to some agent – a money manager. These funds, whose very existence depends upon the success of the economy in avoiding deep portfolio choices that were being made: The United States' trade deficit though improving was still in deficit by a great amount. Portfolio choices of money managers drive exchange rates; the balance and terms of trade can change all out of proportion to changes in relative production efficiencies. Much of America's industrial decline of the early 1980's was a creation of a grossly overvalued dollar that resulted from interest rate differentials, safe haven portfolio choices towards the dollar, and speculative momentum rather than due to a sudden deterioration of America's comparative factorial production costs.[54]

My contention, based on Minsky's exposition, is that money manager capitalism signifies the enshrinement of the *rentier* as the appropriate receiver of profits, and that such an understanding makes concepts of financial capitalism clearer. The problem with financial capitalism, and the policy responses that are formulated in order to deal with it, are not a matter of fictitiousness – some kind of capitalism that does not have any basis in the world of production, through an intangibility that makes it incomprehensible. Rather, it simply enshrines a middleman who makes speculative bets using, as Minsky emphatically notes, "other people's money."[55] The use of other people's money to place speculative bets on the performance of a commodity/currency/nation, instead of pooling resources to be more stable, actually results in crippling instability when overleveraged.[56]

---

[54] Minsky, "Money Manager Capitalism, Fiscal Independence and International Monetary Reconstruction," 5–6.
[55] Ibid., 8.
[56] Hyman P. Minsky, "Money Manager Capitalism" (Hyman P. Minsky Archive. Paper 13, 1989), 23, http://digitalcommons.bard.edu/hm_archive/13.

The Minskian policy option is clear: that we should follow Keynes' directive in the oft-glossed over chapter 21 of *The General Theory* and euthanize the *rentier* in order to privilege public/socialized investment over private investment. Minsky shows that the exact opposite happened, and the increased financial fragility of the economy is the price American political society paid. In 1933, Minsky tells us that capitalism was a failed economic order. Managerial capitalism saved it from the brink of total failure and ushered in a "practical best." Money manager capitalism, with its increased financial fragility, was dysfunctional at best, and in the aftermath of the most recent crisis of 2007, there is still an open question as to whether capitalism might not once again be a failed order. Minsky believed that with the demise of the USSR, there would be a golden opportunity for advanced industrial democracies like the United States to determine how to make capitalism work best, again with the Minskian qualifier that best meant things like full employment, reduced income inequality, and a small amount, if not full eradication, of poverty. This did not happen, of course. He did not live long enough to see this most recent downswing, but it is safe to say that advanced industrial democracies have not seen a very smooth operation of financial capitalism; the *rentiers* are not doing a very good job of making capitalism work.

### 4.3 The Usefulness of Policy Fixes and the Uncertain Future

It is in diagnosing the best policy options where Minsky begins to falter, but this might not be terribly important; after all, the advent of money manager capitalism was somewhat new, and with the United States' "pyrrhic" victory of the United States over the USSR, there might have been obscuring factors in his preanalytic vision.[57] He does note that he is a much better at

[57] Minsky, "The Economic Problem at the End of the Second Millennium: Creating Capitalism, Reforming Capitalism, Making Capitalism Work," 10. Minsky also notes that this was the end of military adventurism as an economic booster.

diagnosing economic problems and not remedying them.[58] Nevertheless, it strikes a peculiar tone between his above recommendation for an employer of last resort and the re-establishment of public works programs like the CCC and WPA, and his Schumpeterian impulse to resist fixity in a financial society. He notes that: "The entire post war era can be interpreted as demonstrating the evolutionary character of capitalism: capitalism survives because it is an economic system that is hospitable to institutional change. Not only do institutions matter but the evolution of institutions matter."[59] We can look to the examples Minsky points about the failure of the Continental Illinois Bank in 1984 and the Federal Reserve's actions as the lender of last resort to refinance the bank to stave off a deflationary spiral.[60] This recalls the analysis presented above about the collapse of the Keynesian-Rooseveltian policy synthesis: firms get recapitalized but are not reorganized by the state through bankruptcy, and so risk becomes increasingly volatile and systemic. These central bank interventions stave off asset price collapses, but set the stage for intensified future financial fragility.[61] One can compare the Federal Reserve's 4.5 Billion dollar bailout for Continental Illinois, one large failing commercial bank, and the 700+ Billion dollar bailouts for almost the entire investment banking industry in 2008 to see that magnified instability once the Federal Reserve makes it clear that they will recapitalize ailing banks. In this way, even though he recognizes the necessity of the federal government to be the lender of last resort to prop up aggregate income, Minsky still: "abhorred government bail-outs of Lockheed, Chrysler and some electric utilities… Instead he favored 'socialization of industries that require

---

[58] Minsky, *Stabilizing an Unstable Economy*, 319.
[59] Minsky, "Money Manager Capitalism," 26.
[60] Minsky, "The End of Laissez Faire: 1987 Style," 25. Minsky is frank that although one should resist dealing in counterfactuals, big government intervention was necessary to sustain profits in the private sector.
[61] Hyman P. Minsky, "Innovations in Technology, Labor and Finance: An Integrated Approach to Instability" (Hyman P. Minsky Archive. Paper 45, 1985), 21, http://digitalcommons.bard.edu/hm_archive/45.

financial restructuring' through a 'government refinancing corporation…"[62] Such a policy might both constrain instability (for a time anyway, until the next financial evolution/innovation), but also prevent the "moral hazard" of firms acting badly because they know that the federal government will provide a bailout when needed.

Minsky suggests that we should not be at all surprised by these developments. Indeed, a cursory glance at the evolutionary nature of banks, especially the re-merging of commercial and investment banks in the wake of the Gramm-Leach-Bliley Act of 1999, triggered many new investment opportunities for money managers. We cannot simply pine for a new New Deal as if that alone might be the answer to all that ails advanced financial capitalism in the United States. We must deal with the institutions as we find them and formulate policy that is addresses the institutional realties, and that can evolve when the institutional arrangements themselves change.

So perhaps Minsky's faltering is not a faltering at all. It is possible that the reanimation of public works programs, in which he himself participated, formed his social vision, he just had the modesty not to pretend that such policies would present an automatic fix for the increasingly unstable version of American finance capitalism. And besides, there are plenty of orthodox policy measures that Minsky must confront to even begin to conceive of other ones. One of the biggest policy perspectives that Minsky countered reaches back to the analysis presented in chapter two: an economic policy of properly manipulating the amount of money in the economy. Minsky, in the first instance, argues that far from being a simple policy prescription, monetarism and the belief that one may explain business cycles simply by knowing quantity money, is more of an ideological stance.[63] Minsky interprets Friedman and Schwartz to be saying that regardless of financial commitments, if the money supply is sufficiently expanded during a recession, no

---

[62] Papadimitriou and Wray, "The Economic Contributions of Hyman Minsky," 214.
[63] Minsky, Okun, and Warburton, "Comments on Friedman's and Schwartz' Money and the Business Cycles," 64.

depression can take place.[64] This is demonstrably untrue in the current crisis, and the empirical evidence can be reviewed in chapter two: the money supply (such as anybody knows just what the money supply actually is) has little to do with economic indicators such inflation or GDP. Building a model based on a dubious theoretical foundation leads to equally dubious policy prescriptions. But it is also socially disastrous in an empirically observable way. Minsky and Fazzari argue:

> …that policy based on monetarist precepts reinforces the deterioration of economic performance that has been a trend characteristic of advanced industrial economies since the late 1960s. This is so because monetarism embraces fundamental misspecifications of how money, and financial variables in general, affect the behavior of advanced capitalist economies.[65]

A monetarist policy is thus a crutch that attempts to explain simply a complex financial economy, with timed commitments and massive interlocking payment chains. Building a policy based on this model would be unlikely to work, as complexity is reduced to simply "solving the money problem."[66] I argue that we can take this analysis even further as a way to unearth the social relations that stand behind economic/monetary relations and even to begin a critique of Minsky himself. While Minsky and Fazzari base their own criticism of monetarism in the tradition of other doomed populist movements which sought to solve the "money problem," such as "post-Jackson era (or wildcat) banking" or the "populist campaigns with the Cross of Gold," they do so in a way to seemingly marginalize these movements.[67] It is strange to suggest that the Populists of the early twentieth century were concerned with resolving the "money problem," and a lot more sense in a Polanyian sense, where the encroachment of market society, which necessarily frays social relations, must be reigned in. So while wildcat banking may very well

---

[64] Ibid., 68.
[65] Steve Fazzari and Hyman Minsky, "Domestic Monetary Policy: If Not Monetarism, What?," *Journal of Economic Issues* 18, no. 1 (March 1984): 103.
[66] Ibid., 109.
[67] Ibid.

have not been a sound economic policy, simply calling it a "monetary experiment" at the very least shortchanges the desire to shift fundamental social relations underlying the economic ones.[68]

As Minsky's analysis winds down on policy, we ought then to keep in mind two related concepts in a formulation of a strictly Minskian political economy. First, he is correct when he states that: "There is no once-and-for-all 'fix' for policy in our institutionally complex economy."[69] Such a recognition that we will never find the silver bullet that make capitalism perform optimally is helpful and does not shy away from social complexity. But on the other hand, he seems secure with offering a policy program in his political economy that is mostly reactive to new forms of capitalism, which may obscure the social relations underlying these policy decisions. Minsky argued that "'Economies evolve, and so too must economic policy.' Existing policies are no longer adequate to deal with the new form of capitalism…"[70] If policy is always chasing the financial innovators to try and constrain them, it is less clear just what Minsky means when he argues that we need new institutions to manage instability brought about by money manager capitalism, and that these institutions should be "democratic."[71] But if he reduces some social movements to wrongheaded money mysticism, like Jacksonian wildcat banking, it is unclear just how much room he leaves for a robust participatory democracy. Perhaps the hidden subject in Minsky is the Keynesian enlightened technocrat, who knows how to operate the economy.

Formulating a "Minskian" policy program is thus simultaneously easy and exceedingly difficult. It is simple in that Minsky, over the course of his five decades of academic writing,

---

[68] Ibid.
[69] Ibid., 115.
[70] Papadimitriou and Wray, "The Economic Contributions of Hyman Minsky," 216.
[71] Ibid., 218.

espoused a very consistent vision of what a political economy should seek to do: feed, house, and provide employment for a high material standard of living in the United States: "The aim of policy is to assure that the economic prerequisites for sustaining the civil and civilized standards of an open liberal society exist. If amplified, uncertainty and extremes in income misdistribution and social inequalities attenuate the economic underpinnings of democracy, then the market behavior that creates these conditions has to be constrained."[72] He offered that the United States should do this through supporting stronger trade unions, tax incentives, higher minimum wages, a network of community banks which would be much more likely to take the development of their neighborhoods more seriously, among the usual rubric of public infrastructure projects and direct employment described above.[73] It is far more difficult in that we still understand that there is no end-all policy "fix," and that Minsky had a reactive view of what policy was supposed to achieve. Minsky was fond of noting Steve Albin's quip that: "the agents in the model have a model of the model." Policy might work, like in the post-war decades, but maybe only accidentally, and even then only if the people in the model like the model. Otherwise, the model falls apart.

This is not necessarily a critique of Minsky's policy objectives. We can see the tension between his Keynesian sympathies on the one hand, where the state has a vital role to intervene in market society to keep it functioning, democratically administered (however fuzzy that representation of democracy may be). On the other hand, the Schumpeterian in Minsky cannot accept that financial innovation will not evolve and, at times, outpace the ability of the state apparatus to constrain it, democratic or not. This tension, however, gives a much deeper appreciation of the complex challenges faced in advanced industrial democracies. We cannot just

[72] Minsky quoted in Ibid., 217.
[73] Ibid., 217.

reconfigure the money supply, or put bad bankers in jail, or rediscover the Protestant work ethic and expect that will "fix" anything. The next chapter will try to give appropriate consideration to that tension by exploring the terrain in which that tension happens: the everyday lives of citizens.

Before that exercise, however, it is worth the time to note just how far we have not come in formulating new political economies. From the non-policy social policy of *laissez-faire* to the quasi-Keynesian response to the Great Depression to a quasi-*laissez-faire* of money manager capitalism, it is persuasive that we are still in need of pursuing new social policy. In other words, we have never been Keynesian, let alone were at one time Keynesian and then rejected it upon its dismal failure. In the current context, then, it should surprise us little to see that capitalism in 2007, much like in 1933, was a failed order.

## CHAPTER FIVE: Interdisciplinary Political Economy in Everyday Life

The final possibility that Minsky gives for a meaning of the term "political economy is, "a view of economics that believes economics cannot be 'divorced' from the other social sciences, and even humanities." As the preceding chapters show, each of his possible definitions build upon one another, and I argue in this chapter that this last definition is the most complete, and the kind of political economy that should be restored to a central place of authority in advanced industrial democracies. My defense of this definition will rest on two major arteries of analysis. First, that by having an explicitly political conception of political economy, we can use political concepts such as sovereignty as an explanatory device for analysis and critique. Second, to place political economy in the arena in which citizens experience it: the realm of everyday life. This fits hand in hand with establishing Minsky in the Marx-Veblen-Keynes Institutionalist lineage of political economy. The economy both happens to us, and we are asked/compelled to "perform" it, as well. We cannot simply pretend that we can isolate or pluck out the "economy" from its social embeddedness. If we accept Minsky's argument that institutions are always already important in the study of economics, then the society in which those institutions are created, formed and (re)negotiated is the proper arena for analysis.

Minsky stopped short of fulfilling the requirements for this final definition of political economy, but by coming through the other possible definitions, his insight and preanalytic vision gives this interdisciplinary interpretation a chance to incorporate something more explicitly political. While at first it may seem like a simply rhetorical shift, there is a substantive weight behind the proposition that we ought to reject outright the idea that "the markets" determine a given set of possibilities in a political society. Markets are social institutions, and as such are open to social recontextualization and intervention.

### 5.0 Re-inserting the Political: State-Centered Monetary Sovereignty

One of the precepts of the politics of market society is the sovereignty of the state. However, the key to this argument is based on a proper understanding of sovereignty. Various strains of economic thought and financial literature discuss sovereignty as key to building markets or setting policy, but I seek to go beyond a kind of fuzzy Westphalian self-determinacy of nation states. I will use the inverse of Carl Schmitt's definition: "Sovereign is he who decides the exception."[1] Taken in concert with his idea that the concept of the political presupposes the existence of the state, we can safely say that, in the current context, the state is the sovereign who decides the exception.[2] The way I am deploying the idea however, is in its inverse. If the sovereign decides the exception, the sovereign also decides the non-exception; that is, it establishes the "normal operating procedures." This includes financial normal operating procedures to maintain the integrity of market society. As Marx puts it: "…the establishing of a standard measure of prices, is an attribute proper to the state."[3] The state is thus responsible for setting fiat money values as well as establishing the rules for performance in market society.

This concept of sovereignty is an important idea to keep in mind when confronted with the question of what gives money its value. There are many answers to this question. Most foundational orthodox political economy visited in chapter two, from Smith[4] to Ricardo[5], simply argues that money is a medium of exchange far more convenient than bartering. Other orthodoxy

---

[1] Carl Schmitt, *Political Theology: Four Chapters on the Concept of Sovereignty*, trans. George Schwab (University of Chicago Press, 1985), 5.
[2] Carl Schmitt, *The Concept of the Political*, Revised ed. (Chicago University Press, 1996), 3.
[3] Marx, *Capital: Volume 1: A Critique of Political Economy*, 222.
[4] Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Simon & Brown, 2012), 23.
[5] David Ricardo, *Principles of Political Economy and Taxation* (CreateSpace, 2010), 63.

maintains that fiat money has its value due to some shared mutual trust: all citizens agree, united in free exchange, that the money represents the value printed on the note at a given time. The problem with this argument, however, it its weak epistemological foundations in two regards. First, if this were true, citizens would have to constantly be affirming their belief in the value of money to each other, which would surely impede the smooth flow of money, hence commodities. Second, historically, Minsky points out that before the establishment of the Federal Reserve, such money confusion was the norm, referring in particular to the full privatization of money creation and circulation, Jacksonian-era "wildcat" banking.[6] In such a regime, people did have a difficult time ascertaining the value of a piece of money, regardless of the denomination on the bill, because with no national debt (Jackson remains the one president to retire it) to entice investors into taking on federal money, and with no central bank to ensure uniform money forms, "Anyone could start a bank, and many did."[7] In both of these tracks, the endogenous money approach proffered by Minsky does not allow for the value of currency to derive from trust. During the wildcat era there were all sorts of currency floating around, and after central banking the relative value of currency is still ambiguous with the mushrooming of credit. At this point, it becomes clear that whether people accept a given denomination of currency is tangential to the issue of what gives the money its value in the first place.

There is nothing about the money itself that gives it its value, but it does reflect the social relations behind it. Marx gives two distinct functions for money. It both represents the value of the national product, and it also reflects the prices for commodities in circulation.[8] Money thus does represent value, but only as a tally for the social product and the distribution channels

---

6 Hyman P. Minsky, "The Failure of Official Economics" (Hyman P. Minsky Archive. Paper 135, 1980), 5, http://digitalcommons.bard.edu/hm_archive/135.
7 Kindleberger and Aliber, *Manias, Panics, and Crashes*, 191.
8 Marx, *Capital: Volume 1: A Critique of Political Economy*, 192.

thereof. This is even truer in the post-Bretton Woods world than when Marx wrote it, as in the current context of advanced industrial democracies, the amount of money is no longer tied to the amount of gold in circulation or held in reserve to whatever ratio. In a regime of fiat currency, the role of the state is central to not only setting a given "policy" but also about shaping social relations themselves. In the last chapter, when Minsky discussed the urgent need for the state to reconfigure income distribution channels, it is not a policy preference, but as I will soon show, cuts to the foundations of the role of sovereignty in political economy.

Thus, we carry coin not because it is more convenient than offering livestock, but because we use it to participate in the obligations of market society, and in particular to extinguish payment obligations, public and private - just like the expression on United States currency. Money has thus always been based on debt/credit, and the extinguishing thereof, but not only in its most literal sense, but the same is true if we consider debt in a broader sense of needing to use a particular medium in order to properly participate in the responsibilities and obligations of market society. The state as sovereign appears as a monetary force with this proper understanding of the nature of money. This allows us to say, in everyday terms, that which gives money its value is an act of sovereignty: we owe taxes in it. To tax a citizen is an application of the "normal operating procedure" of sovereignty, and we surely feel that way when we see part of our paychecks or income flowing back to the state in order to extinguish tax obligations. This is not an act of exception, but an act of establishing a certain kind of social relations. This can be shown empirically and logically. Empirically, all we have to do is consider legislation and the United States Constitution itself to see that the United States reserves the right to coin and maintain a currency: an unambiguous act of sovereignty from the beginning.[9] We can then

[9] United States Constitution, Article I, Section 8 "To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."

logically say that the value of the fiat currency – that is, money by sovereign decree, establishing the monetary normal operating procedures - derives from the fact that we need it to extinguish our liabilities. It is neither barter nor mutual trust that drives money or gives it value.

The "taxes drive money" approach provides both a necessary and sufficient condition in order to give birth to a market society. We can thus call money, in the terms of macroeconomist Randall Wray, "that which is needed to pay taxes," or "twintopt."[10] To extend Marxian analysis from chapter three into Wray's argument, citizens would ostensibly receive twintopt for participating in the socially necessary labor time needed for social reproduction. This is not observed, of course, but does provide a nice ground for critique of income flows and inequalities. At any rate, the United States government has established twintopt as the dollar, and since all citizens therefore need dollars to pay taxes (such as income, sales, or property), the leftover dollars are quite convenient for establishing a private economy of exchange. The phenomenon of money, in this view, does not emerge along with, or facilitate, exchange, but rather money establishes the possibility of private exchange. This taxes drive money approach is not anything new, and in fact there are hints of such an approach formulated by Polanyi in his discussion of the Chartalist movement.[11] Wray notes that in a Chartalist understanding of the relation of the citizenry to the state: "the government does not 'need' the public's money in order to spend; rather, the public needs the government's money in order to pay taxes."[12]

Twintopt does not necessarily need to be a currency, although currency is the easiest way to ensure that more people would participate in market society and be able to extinguish our tax

---

[10] L. Randall Wray, *Understanding Modern Money: The Key to Full Employment and Price Stability* (Edward Elgar Publishing, 2006), 4.
[11] Ibid, 37.
[12] Ibid., 18.

burdens.[13] If twintopt were a particular commodity this opens up all sorts of fluctuations of whatever commodity represented twintopt, as well as spatial arrangements that might make it more or less difficult to acquire the means to extinguish tax burdens.[14] While this is an important justification for what gives fiat money its value, it does not suggest that fiat money is the panacea that ensures continuous and smooth growth of market society. The issuance and acceptance of credit confounds the control of even fiat money. The outstripping of money by credit is a not strictly a phenomenon of a fiat money regime, as Marx notes, even when the money is supposedly backed entirely by specie, the majority of money circulation is done with notes promising to pay at a future date.[15] The Chartalist addition to such an analysis is that as long as those notes are accepted by the state in payment of obligations to the state, these notes are just as much money as a bill "backed" by some other commodity (regardless of whether one could convince other people to accept the notes as means of payment). There is a nuanced relationship between money and credit. They are analytically distinct, but socially inseparable. This is inseparability is based on Minsky's argument for the endogeneity of money. If banks create money by issuing loans, then credit money is always already part of the growth of capital assets. What makes Chartalism an interesting component to a properly political economy is that it is a theory with the state in mind and how it manages flows of production, distribution and consumption. Of course, such a focus on the state compels us to focus on the institutions that perform these flows under the state's aegis, the most obvious instance being banks.

---

[13] Keynes goes as far back as cuneiform wedges as money, and Wray gives a humorous account of England's use of tally sticks to keep track of payments to the crown. When the Treasury was burned down, all debts were forgiven!

[14] One of the most complete texts about the degraded social relations that emerge from chasing small gold deposits all over the ends of the Earth is Pierre Vilar's *A History of Gold and Money: 1450-1920* (2011). The view that only gold (and eventually silver) can be used as money is not, in the Chartalist reading, indicative of an unquenchable avarice. Rather, the Chartalist argument is that since the sovereign demands that gold in taxation, and there is only but so much gold in circulation, this compels people to do what they must in order to extinguish those burdens.

[15] Marx, *Capital: A Critique of Political Economy, Vol. 3*, 525.

Similarly, Keynes, chief architect of the supposedly gold standard Bretton Woods system argued that even money supposedly based off of gold is still Chartalist, the state's exercise of sovereignty being responsible for its value. The reason for this is because the state may "rewrite the dictionary," or establish new rules for market society.[16] The state does not enforce some normative truth of what money is; rather it enforces the dictionary that it writes through its exercise of establishing the normal operating procedures of market society.

Minsky, standing on the shoulders of Keynes, who as I demonstrated in chapter 3, is standing on the shoulders of Marx (however loathe he would be to admit it), continues in the same vein in his policy prescriptions described in the last chapter. In the current context it is well to take advice from Alfred Marshall that each generation responds to the economic conditions that it inherits, and reacts to them accordingly. In the neoclassical synthesis, which again I argue now includes Minsky's biting analysis of advanced finance capitalism; states are assumed to be reactive to markets (hence some of the rhetoric about the importance of confidence). The role of the state and the political decisions of administering market society in an analysis or critique of capitalism remain vital.

Beyond the issuer of money, there are more reasons why fiat currency makes sense. As the monopoly issuer of the currency the United States government does not "need" dollars since it can make as many as it desires, but if the taxes drive the money, we have one more conclusion to draw: that when the issuer of the fiat currency spends, that money is thus created. Those in control of monetary policy in the United States occasionally voice this sentiment publicly. For instance, former Federal Reserve chairman Alan Greenspan nonchalantly noted recently: "The United States can pay any debt it has because we can always print money to do that. So there is

[16] Ibid., 31.

zero probability of default."[17] Current Federal Reserve chairman Ben Bernanke similarly noted that the United States is simply managing its economic policy: "One myth that's out there is that what we're doing is printing money. We're not printing money… What we're doing is lowing [sic] interest rates by buying Treasury securities."[18] Therefore, sovereign spending creates money, and taxes maintain demand for government currency.[19] This makes sense upon a closer reflection. Where are we supposed to get our twintopt if the sovereign issuer of the currency does not issue it? Suppose the government demands tax liabilities in dollars, but refuses to issue any dollars. Where do we get them? We know that we cannot ourselves make them. If one were to do that, one would experience a different side of state sovereignty. How, then, does the currency get issued? The government must spend twintopt into existence, requiring "persistent government deficits" through a simple accounting identity.[20] This is empirically observed, as well:

[17] "Meet the Press Transcript for August 7, 2011," *Msnbc.com*, n.d., http://www.msnbc.msn.com/id/44050464/ns/meet_the_press-transcripts/t/meet-press-transcript-august/.
[18] CBSNews, "Fed Chairman Ben Bernanke's Take on the Economy" (60 Minutes, December 6, 2010), http://www.cbsnews.com/2100-18560_162-7114229.html?pageNum=2&tag=contentMain;contentBody.
[19] Wray, *Understanding Modern Money*, 75.
[20] Ibid.

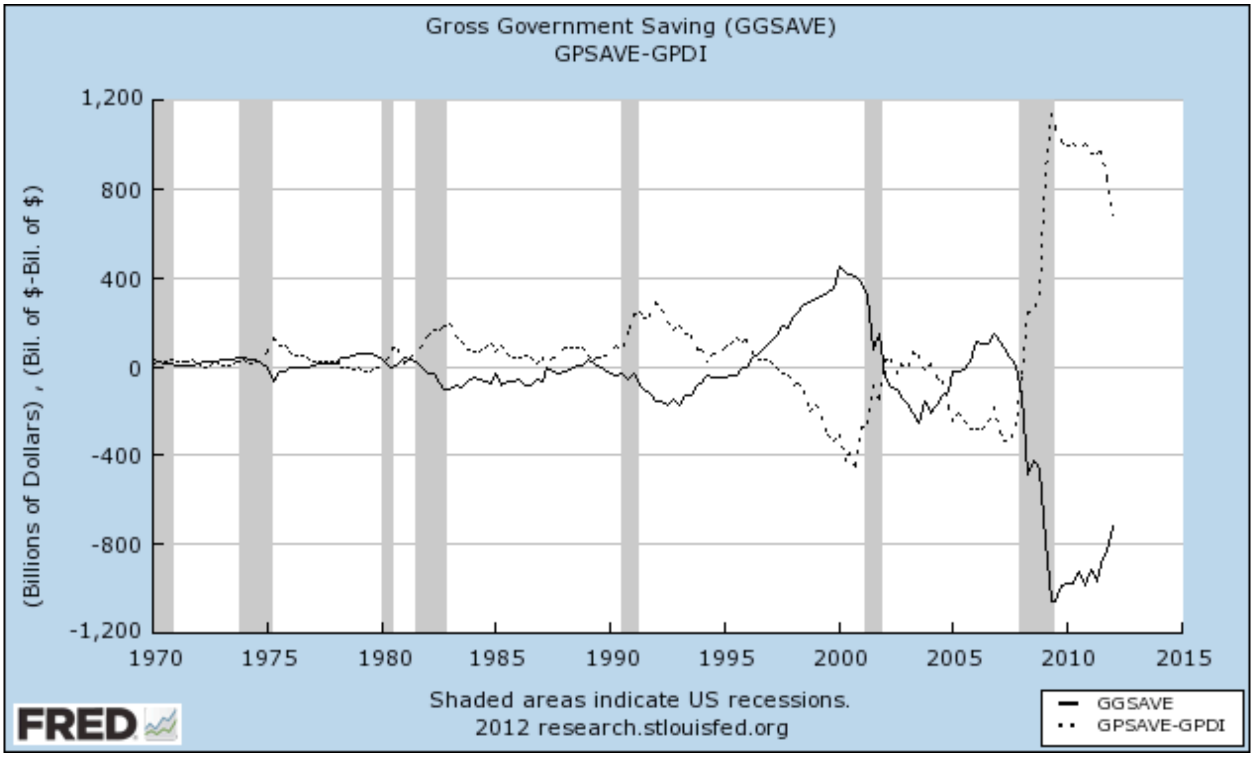


**Figure 3: Private Profits Versus Government Deficits**

This figure is clear in showing an almost mirror image of government deficits (solid line) and private profits (dotted line). Much in the same way that a Treasury security or bond is a liability to the government but an asset to a private citizen, so it is also proof of the standard Keynesian idea that government spending = national income. It makes little sense, in a time of crisis, which seeks to slash government spending, as that would automatically trigger a fall in the national income, further degrading social relations. The private sector and the government cannot deleverage at the same time. This figure also gives credence to the Financial Instability Hypothesis: the curves are more pronounced as time progresses.

The money supplied by the state to sustain private profits, then, comes from nothing except the government's fiat capacity to spend it into existence. It is not financed. Another pillar of mainstream political economy thus crumbles. After all, if the government needs to finance its spending, where does it attain those dollars?[21] How would the dollars get "in the vault" so to speak in first place, unless the currency was created? Why would it need to "raise" its own money that it creates? The Institutionalist view of money as a creature of the state and its value from an act of sovereignty avoids the logical dead-ends of the neoclassical synthesis and provides a lens through which we can pursue a political economy.

Fiscal policy is thus clearly an act of sovereignty, even when acts of state intervention are less obvious than direct transfusions of cash from the treasury to private coffers. Therefore, to say a state is monetarily sovereign is to suggest that it is the monopoly issuer of its currency. It establishes the value of its currency by setting interest rates domestically, or exchange rates internationally. In 2011, Switzerland pegged the Swiss Franc to 1.2 against the Euro, devaluing the currency almost ten percent in fifteen minutes.[22] Regardless of if it is an effective move it very starkly displays how the state can decide to pursue its own fiscal policy. It can change the rules to serve social ends, even by doing something as small as setting interest rates. These things can, or at least ought to be politically determined in advanced industrial democracies. If they are not, then political society finds itself in an ironic position. To recall Polanyi, the role of the state is to protect political society from the encroachment of market society. If the state decides it will not or cannot, it neglects to perform this very important function, and social relations become degraded as a result.

### 5.1 Sado-monetarism and the Abdication of Sovereignty

The state may decided to not exercise its sovereign power on to market society, but it may also very well give up its sovereignty due to a misguided belief in the irresistible power of

---

[21] Ibid.

[22] "Switzerland's Protectionist Move Unlikely to Pay Off," *The Guardian*, September 6, 2011, http://www.guardian.co.uk/business/2011/sep/06/swiss-franc-protectionism.

the markets. With this in mind, a brief comparison will serve to show the difference between a state that is monetarily sovereign but may choose not to exercise it, which is the position facing the United States, and the European Union, whose member countries gave up their sovereignty to the European Central Bank, which is the non-national monopoly issuer of the Euro.

The United States is sovereign in its own currency, per the analysis just presented. It issues its own twintopt as dollars, and spends them into existence, sustaining a continuous debt, which mirrors private accumulation. The members of the Eurozone, on the other hand, are not sovereign in their own currencies; they have adopted the common currency of the Euro, and the member states do not make the Euro, only the European Central Bank has that power. Consider the stark differences here. As the monopoly provider of twintopt/money, the United States never faces an "affordability" problem. It can make any payment it needs to make that is denominated in dollars because it makes and controls the dollars. Social Security checks do not bounce, and the political question over whether the checks will be issued in the first place is yet another example of the degraded social relations of sado-monetarism; not an "economic" question of affordability. Greece, on the other hand, is going through a "tortuous debt restructuring," which will necessarily mean investors in bond "taking a haircut," that is, accepting a loss on bond returns, with other European nations soon to follow.[23] Why are investors being forced to take a haircut? Because these nations cannot create more Euros, if there is a budget shortfall, they must either figure out a way to generate more of them (most likely by becoming a net exporter – and not every nation can be a net exporter), or by having its citizens carry the burden of the loss through society-killing austerity measures.

---

[23] Mike Dolan, "Analysis: Greek Default May Be Gift to Other Euro Strugglers," *Reuters* (London, March 7, 2012), http://www.reuters.com/article/2012/03/07/us-markets-restructuring-idUSTRE8260E320120307.

The European Central Bank, Dolan tells us, is not going to bail Greece out or guarantee bond issuances to cover the debt, so Greece and its investors are discussing how much of a depreciation in value they are willing to accept. While much of the focus is on Greece, we should be excoriating the European Central Bank's decision to not act in its capacity as the lender of last resort. The social results are devastating. Skyrocketing interest rates on government bonds have spiked, as investors are skittish about the Greek government's ability to make schedule payments. From May of 2009 to May of 2012, the interest rate on 10-year Greek bonds has shot from 5.22% to 21.48%.[24] One wonders how, if the Greek government cannot accumulate enough Euros to service their current debt obligations, how selling new debt to investors at twenty-five percent is going to be a tenable situation. But this situation gets at the heart of this analysis: states being unwilling or unable to exercise sovereignty for the good of society is the enshrinement of the *rentier* as the proper rent-seeker in finance capitalism. This is the opposite of a Minskian political economy, even if a watered-down version of the Financial Instability Hypothesis has become common knowledge.

We have thus seen what happens to a country that is not sovereign in its own currency. It is compelled to ensure money flows to the *rentier* class instead of being used for socially desirable ends. The United States, however, unlike member countries of the European Union, is the sovereign issuer of its currency, and as such faces no affordability constraints on its treasury

[24] *Harmonised Long-term Interest Rates for Convergence Assessment Purposes*, Long-term Interest Rate Statistics for EU Member States (European Central Bank, May 11, 2012), http://www.ecb.int/stats/money/long/html/index.en.html.

securities:

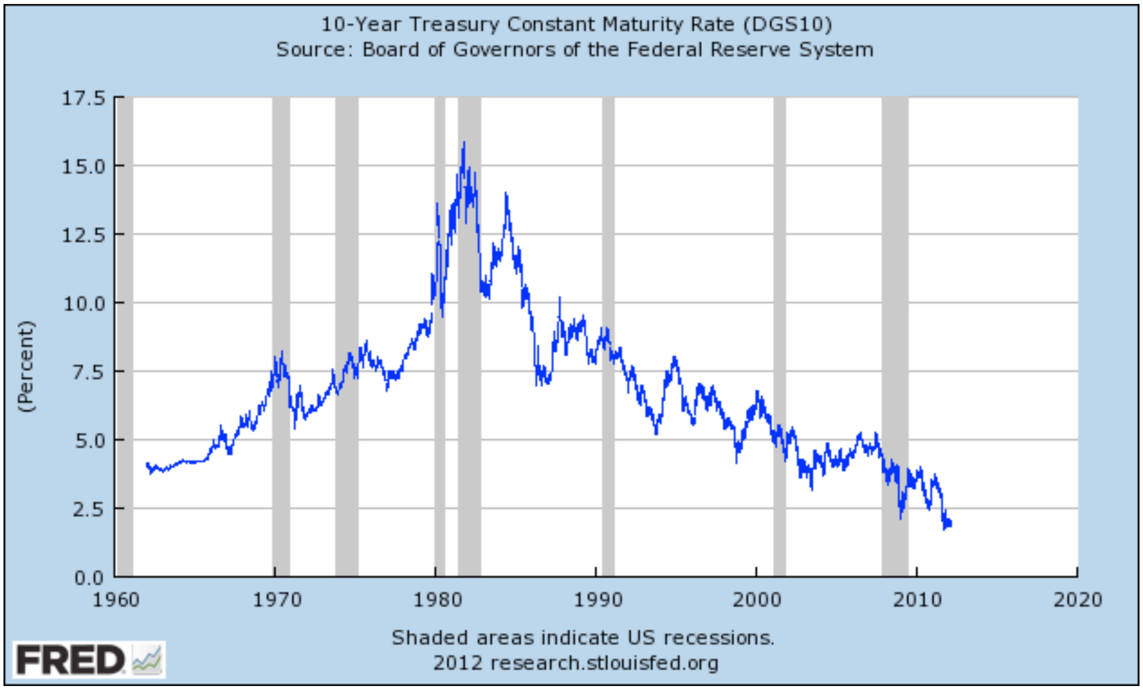


**Figure 4: Interest Rates for 10-Year US Treasury Securities**

Even with credit downgrades or threats of credit downgrades, the United States maintains a healthy low interest on its bonds. This is simply because the state, through its position as sovereign issuer of the currency, determines the interest rate on its own. Wray tells us: "Since bond sales are nothing more than an interest rate maintenance operation, the government decides the interest it will pay – or alternatively, the price of government bonds – in its monetary policy."[25] This flies in the face of conventional fiscal policy orthodoxy, and yet here is the effective empirical data. Record deficit spending has had a *downward* pressure on interest rates. There are a number of persuasive reasons that this is the case. First, since the state sets interest rates they can be set low to try to spur private investment (again, while this is stimulative, it is not in any sense of the word a "Keynesian" policy) as a more attractive avenue of investment than treasury securities. Second, in a Chartalist framework, the state spending money into

[25] Wray, *Understanding Modern Money*, 88.

existence in order to service its payment guarantees that no payment can ever be missed, expect by deliberate choice of. In more explicit Minskian terms, the state can never be "Ponzi," though it must be large enough to recapitalize private firms when they are Ponzi.

With all this understanding of the role of money, sovereignty, and state financial decisions, a framework to analyze the current credit crisis emerges. It is not one of moralistic grandstanding but rather Minsky's contention that wealthy advanced industrial democracies enjoy the possibility of shaping their societies. In the United States in particular, a commonplace narrative is that the government cannot "afford" direct transfer payments like Social Security, Medicare, or virtually any social welfare program.[26] The concern comes from affordability narratives: if expenditures outpace revenues, how can the state "afford" it? But in a Chartalist framework, it is clear that this is not a problem of affordability. The state exercises its sovereignty through taxation to give the currency value and to regulate aggregate demand.[27] And even if one does not accept the logic of monetary sovereignty, it does not make a good deal of sense to deal with a depressed economy, where there is not enough money in peoples' pockets, to have the government stop spending the money into circulation which might fill up those pockets. This is Keynes' basic paradox of thrift; itself an updated version of Mandeville's "Fable of the Bees."[28] In the whirlwind circulation of currency, if people or institutions decide not to throw their money back into circulation, aggregate demand slumps, prices fall, and people and institutions then withhold even more money. If the state does the same, there is a deflationary spiral. With this understanding in mind, state-imposed underconsumptionism in the form of austerity measures is not a matter of inevitability, but a political decision by the state to protect

[26] Mary Williams Walsh, "Social Security to See Payout Exceed Pay-In This Year," *The New York Times*, March 24, 2010, sec. Business / Economy, http://www.nytimes.com/2010/03/25/business/economy/25social.html.
[27] Wray, *Understanding Modern Money*, 159.
[28] Keynes, *The General Theory of Employment, Interest and Money*, 358.

the *rentier* class at the expense of the working class while simultaneously demanding they pay a social bill for which they do not have the means: a sado-monetarism.

Denis Healey, outgoing Chancellor of the Exchequer, to describe the assent of Thatcherism, coined the term sado-monetarism.[29] It is a needlessly punishing fiscal policy that the state pursues to gouge pensions, destroy unions, and diminish the role of the public sector to encourage private investment – the exact opposite of what meager steps market societies have taken in a Keynesian direction. What it gives us pause to wonder, though, is why the state would pursue such socially destructive policies; especially given the Polanyian imperative that the state's proper role is to protect society from the reaches of the market. I argue that there is no secret to this; austerity policies protect investors, the *rentiers* of financial capitalism who live off of the interest of their financial investments, or as David Harvey puts it, this is more evidence of the class consolidation of the ruling class in an age of neoliberalism.[30] Of course the popular classes would never concede to such a crippling spate of social relations, and so orthodox economics seeks to establish the need for austerity as natural, or out of the state's hands. That is, it seeks to naturalize or universalize its social relations so that the state may abdicate its responsibility to pursue the fiscal ends to provide for its citizens. Protection of market society thus becomes an obstacle for democracy. This attempt to naturalize the social relations of capitalism alone shows the inadequacy of the previous possibilities for political economy that Minsky offered: they all attempt to naturalize the social relations of capitalism, even Schumpeterian Marxism, to obscure the political possibilities underlying these relations.

Holding onto the idea that all things lead to the Good, or that there is nothing we can do in the face of the universal economic "laws" might be a more comforting thought than

---

[29] Eric J. Evans, *Thatcher and Thatcherism* (Psychology Press, 2004), 22.
[30] Harvey, *A Brief History of Neoliberalism*.

confronting the fact that we must do the hard work of renegotiating social relations to bring about the political society we desire to see. We should not be so quick to allow this non-act of sovereignty to let the market devour society.

We have finally come to the point of sovereign violence in the state's *refusal* to act, in maintaining that the state cannot violate some construct about the absolute "laws" of economics, it instead chooses to impose harsh austerity measures on its citizens. It could be otherwise, but the state will have to act in the interest of society against market economy. As Polanyi puts it: "The passing of market-economy can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all… Such a society *can afford* to be both just and free [emphasis added]."[31] In a truly democratic society, the citizens ought to direct the use state money for social purposes. This necessarily means the passing of market economy, for the sake of preserving and improving society.

### 5.3 Culture, Politics, and Economy: An Interdisciplinary Approach

This analysis is not the first appeal to Chartalism and the possibility of state-directed projects toward socially useful ends. Not only have the Institutionalists mentioned through to Minsky conceived of such a possibility, but also the economic programs of some of Minsky's contemporaries also tried to get at the social good through economics. One in particular example that Minsky was interested in is Lange-Lerner market socialism. Minsky notes: "In the Lange-Lerner model, the role of planning is to determine the price and direction of investment… [where] … A regular steady growth of investment, without inflations or depressions, can only be achieved if today's investment decisions are cut off from today's profitability of business and if

---

[31] Polanyi, *The Great Transformation*, 265.

the total of financed investment, government spending, and private consumption demands is constrained…"[32] The problem is then not that there are no articulated alternative political economies. Rather, the problem is why these alternatives are rarely seriously entertained, or when they are, are so diminished in a neoclassical synthesis that we lose the social visions that they try to offer. This is the consequence of the chronicling of the essentialization of neoclassical economics highlighted in the preceding chapters. It becomes the way things are, and short-circuits a political vision that might offer an alternative.

The enshrinement of the *rentier* class in neoliberal money-manager capitalism, while not a historical necessity, nevertheless is presented as inevitable. Theorist Chantal Mouffe argues that while certainly alternatives exist, they are rarely often seriously considered due to the "uncontested hegemony of liberalism."[33] This is both an external phenomenon that the orthodoxy is the dominant ideology, but also an internal phenomenon in that thinkers also have a hard time escaping the orthodoxy from which they emerge. As mentioned in the last chapter, Minsky is in the final analysis flesh out a complete political program to complement his preanalytic vision. Even so, following his line of analysis of financial capitalism is a good starting point to articulating alternative political economies.

With the attempt above to re-insert a political language into political economy, it is not a far leap to suggest that interdisciplinarity between academic fields is vitally important in order to fully flesh out a social vision that can critique financial capitalism beyond its less than optimal performance of getting the goods. A more political political economy can yield interesting results for possible policy choices, but we are still left with the question of why advanced industrial democracies such as the United States choose or decline to pursue these policies. By going

---

[32] Minsky, "The Breakdown of the 1960s Policy Synthesis," 55–6.
[33] Chantal Mouffe, *On the Political*, New Ed. (Routledge, 2005), 10.

through these possible definitions of political economy that Minsky offers, I argue that he has placed himself in the realm of an interdisciplinary political economy, whose insights can be powerful tools to envision alternative political economies. Minsky's contributions have enabled me to synthesize various aspects of political, social, cultural, and economic theory beyond noting their importance.

This is not to suggest that Minsky is the first or only economist to conceive a more complete social vision for his political economy. There are many who do this. But generally speaking, I will justify the plea to reorient political economy as a social endeavor in two ways. First, the history of the discipline of economics, and secondly, what economics seeks to do, which I argue is to figure out ways to manage the social surplus. In the first instance, the split between politics, culture and economics as academic fields is a relatively recent phenomenon. Thorstein Veblen wrote extensively on this decoupling, and the difficulties it presented for economic, social, and cultural theory, which he held to be evolutionary, codetermining forces.[34] In the second instance, suggesting an economist can be pulled into the realm of political economy is uncontroversial because I argue that economics itself is a field dealing with the distribution of the social surplus.

In the case of Minsky, then, to suggest that he is only an economist when computing (or critiquing, as the case may be) demand curves, and becomes a political economist when he predicts two futures for capitalism – fortress style or shared prosperity – does not make sense. These are clearly social arguments about the best way to produce, distribute and consume the social surplus, arising out of how producers and consumers perform given/assumed roles in market society. The economy is always already a social phenomenon.

---

[34] Thorstein Veblen, *Essays in Our Changing Order* (Transaction Publishers, 1997), xv.

## 5.4 Uniting Threads of Crisis in a Minskian Political Economy

My general argument for using Minsky is in the Institutionalist tradition mentioned above. This analysis adds an interdisciplinary element that argues society, politics, economics, and culture are codetermined and coevolutionary. These codeterminations are not a nice, tidy, contemporaneous process, however. Stretching back to a founder of Institutionalist economic thought, Veblen pointed out in numerous texts that, especially given the decoupling of business and industry, there is significant lag time for economic theory to catch up and explain the current social and cultural configurations that have since taken shape and are shaping individuals.[35] It would be wise to also extend the analysis further to suggest that economic literature itself is not a sufficiently explanatory body of knowledge. Rather, it seems that particular attention is paid to such forces during times of crisis in an attempt to read the dice to see "how we got here," and indeed political, social, cultural, and economic theory all give narratives that seek to answer this question in times of crisis.

I will add to this argument that such a staggering of coevolutionary forces has two consequences that are in conflict. It both requires a coherent theory that incorporates all of these facets of everyday life (a point I will make in full detail later), and pushes academic fields to focus on only one of these evolutionary facets.[36] Taking these in turn should make my case for their synthesis all the clearer; not that I am suggesting this project will offer a unified theory of everything, but that a synthesis moves the theoretical discussion into a better realm than any one particular academic disciplinary apparatus – everyday life. To make this point though, I must elaborate first on the strands in the various academic fields that are of use in formulating such a political economy.

---

[35] Ibid., 1.

[36] Which is not to say that there are many other ways for the disciplinary silos of academia. This is the closest explanation to my project, which justifies the synthesis of these various academic strands.

Minsky's own formulated political economy does not quite get us at such an interdisciplinary understanding, though it does provide the preanalytic social vision that lays a foundation upon which to construct one. As I go through various facets of crisis analysis, the limitations of Minsky's actually formulated political economy will become apparent. Mirowski notes that:

> …what the Minskian approach lacks is a deeper grounding in the theory of the evolution of markets, which can help us understand how and why a particular threshold of leverage tumbles over into Ponzi finance at a particular nexus, with consequences that concentrate throughout the system, such that the damage can no longer be isolated or confined to a particular sector.[37]

Mirowski is right inasmuch as there is more to the story of the tendency toward instability than macroeconomic financial indicators.[38] It also echoes the criticism of Minsky by James Crotty, that Minsky's focus on the financial goings on leads him to treat the macro economy as a perpetual motion machine, with an underdeveloped theory of just why the modes of finance evolve the way they do. The complex evolution of markets confounds expectations of individuals; secure arbitrage opportunities for financial firms, and antagonize the regulatory regime of the state's protective capacity against the encroachment of market society. Crisis thus results from complexity, and it goes far beyond the Schumpeterian innovation outlined in chapter three, and beyond a strictly financial phenomenon to which Minsky limited himself.[39] The political, cultural, and economic phenomena of crisis show a need to pay attention to the evolutionary forces of society, and not only in finance, even though financial instability is a good starting point to see other facets of social instability.

---

[37] Philip Mirowski, "Inherent Vice: Minsky, Markomata, and the Tendency of Markets to Undermine Themselves," *Journal of Institutional Economics* 6, no. 4 (2010): 421.
[38] Philip Mirowski, "Inherent Vice: Minsky, Markomata, and the Tendency of Markets to Undermine Themselves," *Journal of Institutional Economics* 6, no. 4 (2010): 421.
[39] Ibid.

## 5.5 Political Crisis

Political crisis extends from the re-insertion of the political argued above: a financial crisis is thus also a crisis of the state. I will start this discussion with the standard Weberian understanding of politics: "to strive for a share of power or to influence the distribution of power, whether between states or between the groups of people contained within a state."[40] Of course this is not the final definitive understanding of politics, but this is a good template for porting a theory of political crisis from a financial crisis. The political question resulting from the degraded social relations of financial instability seeks to understand these relations of power among actors, but primarily between individuals (under the juridical auspices of the state), between states, or between the state and the individual. The state's existence cannot be ignored, and so the resulting social policy necessarily becomes a political question.  Here exist all kinds of discussions about consent of the governed, the ethics of resistance, etc., but they all exist in relation to a normalized state that has a monopoly on the use of force. In politics then, a crisis is primarily a crisis of the state; the substance of this crisis being the state's legitimacy. There is some noteworthy theoretical complication when one assumes that autonomous individuals somehow freely "consent" to certain kind of governance structure, and this is something that political theory is aware of, even though for the sake of theory we may be able to pull something valuable out of such presumptions.[41]

Beyond the question of to what degree we are able to grant legitimacy, the question of what this legitimacy consists of is fuzzy. If it were a question of distribution of commodities, then it would be a strictly economic consideration, disciplinarily speaking. If it is a distribution

---

[40] Max Weber et al., *The Vocation Lectures: Science As a Vocation, Politics As a Vocation* (Hackett Pub Co, 2004), 33.
[41] Ibid., 34.

of intangible social capital, it very often no longer has anything to do with the state.[42] If it is a distribution of power, then it is an administrative concern. Of course it cannot only be any one of these things. I will argue that the legitimacy of the state is in its distributive capabilities of all kinds, and therefore a crisis of the state is both a political and an economic crisis. This already echoes the political as political economy mentioned above. To attempt to keep this discussion of politics as unpolluted by economic theory as possible, I will set up some narratives of political crisis.

Baran and Sweezy argue that the state acts in the interest of the complex corporation in order to minimize competition to secure regular surplus flows.[43] The consequences of which are far reaching. Lack of competition leads to increased profits, but the lack of investment opportunities for surplus value invariably leads to stagnation. The defense build-up of "Cold War Keynesianism" could only be sustained for so long. The most interesting aspect of this theory is that the state works together with vested business interests, ultimately to the detriment of the rest of the citizenry. This represents quite a jab to the idea of legitimacy granted by regular citizens. The question of why citizens, even if they are not fully autonomous, put up with such an arrangement, is not theorized. One would suspect that in a strong participatory democracy the citizens would demand an alternative to the Cold War defense buildup, which, while providing for reinvestment opportunities for large corporations, did little by way of building up the capital assets of the United States.

---

[42] I am referring here to the body of literature whose shining example is Putnam's 2000 book *Bowling Alone*. Basically, the argument is that American society is in some kind of moral decay because we have stopped playing cards and bowling together. The social relations leading to atomistic isolation are never discussed, nor is the role of the state in its distributive or power-sharing role. While he may ultimately be right, it is difficult to point out what, exactly, is political about this kind of literature.

[43] Paul A. Baran and Paul M. Sweezy, *Monopoly Capital: An Essay on the American Economic and Social Order*, 1st Modern Reader Paperback Ed. (Monthly Review Press, 1968).

O'Connor's fiscal crisis of the state a similarly constructed argument – the state protects the interests of the business class. But what O'Connor adds is an understanding of why labor, as a political group, organizes how it does:

> The only way for the working class to get what it wants and needs is to establish an alliance against monopoly capital. But this is impractical precisely because of the collaboration between big business and organized labor: monopoly sector workers are guaranteed their "fair share" of productivity, big business is guaranteed more than a modicum of labor peace.[44]

The consequences of monopoly sector workers versus non-monopoly sector/precarious workers is a fascinating one, and has explanatory power for why some workers cling to certain interests against their broader class interests. It accounts for uneven power relations in what might be otherwise conceived as a social class but in a broad crisis that throws even monopoly sector workers into precariousness, it might ostensibly gel a larger working class movement. In the current context, however, this does not seem to be the case: newly precarious workers are demanding even less state intervention to protect them from market society. Without a political will to formulate a broader working class movement, O'Connor might expect too much spontaneity from newly precarious labor.

While the state is an important unit to analyze, too often in political theorizing, the state becomes the only unit that matters. In both Baran and Sweezy and O'Connor, the state has certain (hostile) relationships to its citizens, encouraging class fragmentation and reinvestment for monopoly corporations with stagnation as the consequence for most, but the channels by which such hostile relations evolve, are produced and reproduced are not discussed. Indeed in the current context "labor" as a social class receives little attention at all. Rather, discussions of the state center around administrative channels, the relations between states, or preferences of

[44] James O'Connor, *The Fiscal Crisis of the State* (Transaction Publishers, 2001), 44.

governance practices. There is little entryway into the everyday lives of citizens supposedly legitimating the state, consenting to its rule or participating.

This is especially visible in the crisis of the current context. The state acts to protect “big business,” and the *vox populi* has little to show as a result of the state’s actions. Working for the government or monopoly sector becomes a highly sought after place of employment. There is little talk of legitimacy outside of certain fringe groups, yelling to let different people do the same thing, because more important than granting consent in a time of crisis is gaining an income. Political action for citizenry becomes exceedingly difficult; though it is possible one could argue that it is a tacit legitimation. I would argue against such a claim by pointing out that this is not a problem of a taciturn citizenry, but a citizenry that is left out of the process of social formation entirely, with market society once again precluding deliberation.

To only focus on the political then, in this project means that I would recognize the unevenness in the constellations of power and then simply wish a particular kind of political will into being. While this political will must be articulated, it must be done so aware of the range of possibilities in a certain kind of social terrain. It is not a convincing program, as many economists attempt to show, that we should just somehow decide to do things differently based on observed financial instability. As Lefebvre puts it: “There is no such thing as the spontaneity of the masses, and theory by itself is not enough.”[45]

### 5.6 Cultural Crisis

This discussion of cultural crisis will draw explicit links between political and financial crises. For clarity’s sake, and for a more explicit link to the political, a good definition is Fligstein’s use of culture, which considers, “…that social action takes place in arenas, what may

[45] Henri Lefebvre, *Critique of Everyday Life: Introduction (Vol. 1 of 3) (Critique of Everyday Life*, trans. John Moore, Special ed. (Verso, 2008), 182.

be called *fields, domains, sectors,* or *organized social spaces.* Fields contain collective actors who try to produce a system of domination in that space. To do so requires the production of a local culture that defines local social relations between actors [emphasis original]."[46] These fields of cultural production use a certain set of rules that are determined by the entrenched interest (incumbents) against those who do not receive social benefits (challengers).[47]

In this regard, culture is not some essentialist construction about the way a certain group of people act. Culture can be seen as the negotiation of a framework of possible social action, and so like the political, it is worthwhile to question just to what extent the people (particularly the "challengers" in Fligstein's taxonomy) are able to contest these organized social spaces. One difficulty that Fligstein does not take up from Bourdieu that is vitally important, however, is the difficulty in tracing out these organized social spaces when they are in the process of being defined:

> It has to reconstruct these spaces of original possibles which, because they were part of the self-evident givens of the situation, remained unremarked and are therefore unlikely to be mentioned in contemporary accounts, chronicles, or memoirs.[48]

It is highly difficult to sketch the terrain of these spaces of "possibles" in the current context, yet an attempt at doing such a thing is the cultural task of my research project.

There are two critiques that I will make of finance capitalism in the realm of cultural theory that will justify a synthesis with political and economic theory. First, a critique of "Institutionalist" cultural theory, and second, a critique of the cultural performativity that, while paying attention to the codetermination of political and social forms, needs to be drawn into

---

[46] Neil Fligstein, *The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies* (Princeton University Press, 2002), 15.
[47] Ibid.
[48] Pierre Bourdieu, *The Field of Cultural Production: Essays on Art and Literature*, New Ed. (Columbia University Press, 1994), 31.

other fields in order to preserve some kind of agency. In the first instance, there is a good amount of literature across disciplines that try to sketch out the institutional possibles in order to bring us to the latest phase of finance capitalism. Davis, for instance, lays out phases of institutional arrangements that show a shift from a "paternalistic" capitalism in the post World-War II boom to a "managerial" capitalism that took its place as the 1970s were underway.[49] As a brief political aside, this would be the institutional arrangement to the neoliberal project. Managers became seekers of efficiency and shareholder value. Fligstein similarly points out how institutions set the rules along with the state in order to play the "game" of finance capitalism.[50] All of this is to say that if I were to argue for a certain kind of rationality within a certain kind of organized social space, it has to make sense in that current space. Pension insecurity, for instance, would make little sense in a mode of paternalistic managerial capitalism where corporations considered themselves responsible for their lifetime workers (or so the narrative would go, anyway).[51]

The neoliberal doctrine of TINA (There Is No Alternative) finds its place not only in political, but also cultural constructions. If the game is defined by the players who are in the game, we do not need to worry about the legitimation gap in a strictly political doctrine, though there are still clearly power relations. Similarly, as mentioned by Mirowski in chapter two, TINA makes sense as a culturally normalized "physics envy." Neoliberalism seeks to naturalize the organized social space as some eternal metaphysical truth of the way institutions act in the market. This is at least as much a cultural claim as it is political, with the realms of contestation in fields/sectors of cultural production closed off to would-be challengers.

[49] Davis, *Managed by the Markets*.
[50] Fligstein, *The Architecture of Markets*, 15.
[51] Davis, *Managed by the Markets*, 64.

The problem, however, as Fligstein points out, which mirror's Minsky's political economy, is that institutional arrangements are constantly evolving. An alternative is indeed possible in the contestation and negotiation of the organized social space of cultural production. He points to competition among firms changing the power dynamics between firms and, as a result the treatment of firms by the state. There is also the possibility that the challengers may work together to change the rules of the game to the detriment of the incumbent power (although it is interesting to note that Fligstein does not refer to this as an emergence of class conflict).[52] The cultural crisis that emerges is this contestation of cultural production. Such cultural instability was present in the transition from managerial to money-manager capitalism, and is also seen in the renegotiation of institutions in the current context.

While there is plenty spatial reasoning behind this organized social space, one thing it lacks is a theory across time. This institutional theorizing presents the 'game' as being set up and then played, with firms or groups of workers jockeying for various positions inside the game once the rules are set. While this is certainly part of the creation of social space, it does not mention what I argue is centrally important to my research project, that finance is not a static enterprise, or a "moment," but a negotiation for the future. Financial capitalism is a process of betting for or against the present for or against the future, not only playing out rules of a game in any given moment, with institutional arrangements sometimes confounding individual responses.

To make this cultural construction immediately apparent in the economic world of citizens, one can observe the micro-behavior of individuals and firms in terms of what they do with their cash. If financial capitalism is betting for or against the future based on what we believe/are told will happen, using financial terminology of going "long" or "short," we can see

---

[52] Fligstein, *The Architecture of Markets*, 131.

where there is uncertainty and even antagonism. Wray states: "A bank deposit can be thought of as a long position in fiat money, while the bank's borrowers have short positions, betting that they will be able to obtain money for delivery later."[53] To put this into their culturally constructed manifestations, Wray is telling us that when a person goes into a bank and asks for a loan, the borrower is taking a short position on the value of that cash, reasoning that the cash infusion to allow the purchase of a capital asset will allow them to recoup money plus more money over the life of the loan. Conversely, the bank thus takes a long position on the value of the money loan, banking on repayment by the borrower to further valorize the bank's asset. Both the institutional and individual positions are long for the future, but their hopes are not in harmony: the bank does not need to be concerned with the performance of the capital asset, only that the loan is valorized. In the current context, this partially explains the prevalence of NINJA (No Income, No Job or Assets) loans: the value of the house and creditworthiness of the borrower were immaterial, so long as property values rose and refinancing was readily available. This again displays the instability even in boom periods of hedge finance. While it is true that everybody is optimistic for the future, fates are not intertwined. When the economy slides into Ponzi financing and borrowers are forced to sell assets or take on debt just to make payments, the bank may well take a short position on the future and refuse to issue any loans, since they have to service their own payment obligations.[54] If the borrowers are also in a Ponzi position, they need access to loaned money simply to make payments on existing debts. There is then a crisis, as neither banks nor individuals can fulfill their payment obligations. Here the political re-emerges. When the state functions as the lender/spender of last resort, the political decision to recapitalize firms instead of households under the supposedly "Keynesian" idea that such pump-priming will

[53] Lefebvre, *Critique of Everyday Life*, 182.
[54] Wray, *Understanding Modern Money*, 113.

then induce the banks lend out the money, with the consequence of leaving households at the mercy of the confidence of banks.[55] It should not be a surprise to observe that when the banks are refinanced to hedge positions, they should not want to engage in the financing of Ponzi units. The "game" is thus structured to help certain kinds of institutional arrangements. A financial crisis is never thus strictly "financial," it is also a crisis of the cultural constructs that interact in the terrain of finance capitalism.

The second, and related area of cultural production worth talking about is the idea of performativity. This goes against a dominant narrative that can be seen in political/cultural/economic theory that holds the market is the sum of the aggregate individual wills of those who live in it. Desires formulate demand, and autonomous individuals wanting certain things or creating certain things tell us everything we need to know about how markets function. The performativity theory resists this impulse by acknowledging that while markets are indeed created, markets themselves also create the subjects that it needs to perform the market.[56] This approaches the idea I have in mind when I call for a codetermined understanding of interdisciplinary theories. MacKenzie's central thesis is that market-makers have a (mis)guided theory about the ways in which finance allocates capital, and thus it conditions subjects to perform that market theory, both legitimating the theory itself and its internalization by those who participate in it. This culturally constructed idea of how to best direct capital is wrong, as Minsky, through his reading of Keynes, argues that capitalism's problem is that it handles capital very poorly. Nevertheless this is the performativity of market makers in money-manager capitalism.

---

[55] Ibid., 99, what Wray refers to as "pushing on a string," as there is little evidence for many of the "Keynesian" phenomena of the neoclassical synthesis, going so far as to deny the money multiplier, or the trickle-down of loans after a bailout.
[56] MacKenzie, *An Engine, Not a Camera: How Financial Models Shape Markets*.

What the theory of performativity lacks, though, is a critical side. It is one thing to understand that investment banks pull most of their front office managers from Princeton and Harvard because of an idea of what it means to be "smart," and all corporate activity needs to be directed to maximize shareholder value, and when fresh faced kids are making millions of dollars for the bank and themselves, the theory seems validated.[57] It is perfectly reasonable to suggest that we make the markets, and the markets we make, make people who make markets. This makes a critique of financial capitalism itself an imperative, otherwise the critiques are so much quibbling about the operations of the making of the market makers, without getting at why markets make market makers in such a way. This is yet more evidence that suggests the social problems before us is not something that can be simply wished away by proposing something differently.

**5.7 Toward a Politico-Cultural Synthesis**

The analyses that I have given of the strains of political and cultural crises in formulating a Minskian political economy have exposed some of the strengths and weaknesses that each one can offer. And although I made an effort to keep the theoretical traditions of these strains separate, there is some necessary overlap, which I will use in this project. For instance, how we understand and critique the role of institutions in organized social spaces is best done using the theoretical strains in each of these three theories. Culturally, as Fligstein notes, institutions are actors that set the rules of the game, or the organized social space, for economic transaction. However, this game lacks a temporal quality, so if I also use the aspect of the Financial Instability Hypothesis which posits that financial decisions are indeed across time, then there is a

[57] And even when it is discredited. In Ho's *Liquidated* (2009), the discussion with workers on Wall Street often expressed their doubts about whether the economic theory they were performing was actually doing what it purported to do. In the very next sentence, however, they would reassert their faith in the orthodoxy they were a second ago doubting.

richer understanding of how these institutions create a space of action for the time being and how we might be able to track down the evolution to see what kinds of social possibilities emerge, and possible avenues of action for negotiation. For instance, debt repudiation programs only make sense when households and firms are allowed to over leverage on debt in the first place, during hedge or speculative finance debt run-ups.

Another justification for such a synthesis is the Institutionalist idea I mentioned above, bringing back in Vebeln's analysis from chapter one, which is that codetermination and coevolution of various aspects of society give us a richer understanding of the various forces that shape the possibilities of action in our everyday lives.[58] Such an understanding requires the usage of these various theoretical traditions in a synthesis that seeks to explain the current context. This synthesis should resist the impulse to keep academic work in their own fields, since the fields overlap and can speak to each other. Even if Veblen is mistaken about the order in which these social changes happen, the idea that these are all interconnected theories makes sense when they are put together.

I will also reiterate that this synthesis is not complete, neither is it an explanation of everything that exists. All I seek to do is offer a richer understanding of crises by incorporating Minsky's political economy, which are always more than merely "financial" anyway, through an application of political and cultural theory that supplement and elevate the work of someone who is traditionally "only" an economist. Minsky often attempted to say something about the social formations in his work – this politico-cultural synthesis starts the work of putting some heft behind them. Again using the example of institutions, such a synthesis would also allow me to

[58] I want to stress, however, that I am only using Veblen for this argument. He also argued that he rejected class-based analysis in favor of setting up a social dynamic between business, which is focused on the maximization of profit in exchange, and industry, which is focused on producing useful goods. How this is not a class-based analysis is somewhat bewildering to me, but even so, the idea of coevolution and codetermination make sense, even if the categories are up for debate.

address some concerns in Minsky's analysis, like how he unproblematically assumes that category of "institutions" and how they act, from a purely financial, macro level and from that tries to establish a modus operandi for operating a successful kind of capitalism. Opening the institution to critique as a field of production allows for more contestation to the rules of the game, the relations of power, and how various groups try to plan for the future. In other words, it allows the agents in the model to have a more robust idea of their model of the model, and how that model comes to be, and how that model comes to change.

By doing so, this research project will help point out the contestable areas of social life. Neoclassical economic theory does not attempt such goal, and in fact they outright deny the need to address the social. Instability theorists seem aware that economic theory has social consequences, even if they are rarely articulated to their fullest extent, and even then, the disciplining effect of economics rarely lets heterodox thinkers stay that way.[59] The most stark example of such a use of Minskian analysis is from Barbera: "…the marginalization of Minsky also clearly reflects Minsky's radical policy recommendations and the embrace of these decidedly left-wing directives by his academic followers. A large majority of Americans, including this author, categorically rejects Minsky's call for socialized investment."[60] Since he refuses to follow Minsky to the end, he falls back on the decidedly un-Minskian advocacy of the same free-market capitalism with better behavioral scientific methods included to make things run better.[61]

---

[59] Indeed, Barbera's *The Cost of Capitalism* (2009) is an ode to Minsky's visionary economic thought, up until the point where he actually is forced to entertain the idea of implementing some of Minsky's more radical policy ideas. Then he parts ways. It seems that even among some of his admirers, Minsky is poised to suffer the same fate that he tried to prevent for Keynes – a new neoclassical synthesis.
[60] Barbera, *The Cost of Capitalism*, 9.
[61] Ibid., 208.

My analysis does not shy away from the social consequences of Minskian analysis, in fact it gives a framework from which we ought to push even farther some of the social reconfigurations theorized by Minsky. By showing the structures and opportunities that each line of thought can bring (political – power negotiation, cultural – institutional and performative spaces of social organization, economic – looking at financial realities as a mode of production and being across not only space, but also time) I provide a larger scope of analysis for the mode of social crisis, how it affects social life generally, and the challenges and opportunities that emerge from within it. The remaining question for this theoretical synthesis, however, is where it exists.

### 5.8 Everyday life

While I think that a political analysis of how the state interacts with financial corporations and opens up spaces for distribution of the social surplus, a cultural analysis of how firms come to co-exist and set rules for possible action (even if sometimes limited by its insistence on immediacy) and economic theory deals with the distribution of the surplus in order to try to properly invest for a better future, there is little explanatory room in these theories that explain just how people are supposed to engage within these parameters. My proposed synthesis alone would only argue that these theories are codeterminant, where the arenas of crisis spill over to financial, social, and political realms. The question of where the crisis occurs, however, leads to placing this synthesis in the realm of everyday life, for a number of reasons.

First is that my position is one where a social crisis is a crisis of everyday life. The very idea of crisis lends itself to such an interpretation. Crisis is a breakdown that calls for restorative action.[62] To say there is only a political breakdown, only a cultural breakdown, or only a

[62] Wendy Brown, *Edgework: Critical Essays on Knowledge and Politics* (Princeton University Press, 2005), 9.

financial breakdown does not make sense, especially in the light of the codetermination of these realms. The crises in all of these fields try to speak to the realm of everyday life.

Focusing on everyday life takes the mystification out of crises. Much like in Minsky's conception of political economy, the pursuit is not some highly mathematized attempt at finding the optimum pricing of assets, but in the lived experience of citizens. Are they fed? Are thy clothed? Can they find work? That is where the crisis is felt, making it necessarily a social crisis. These metrics matter, not because they are measureable but because they carve out the space of everyday life, where social relations are made and remade, and crises upset these relations.[63] Therefore, the goal stops being trying to pin down some mysterious external event that has caused social relations to go haywire, but rather have an understanding where: "Unglamorous facts were actually the more important ones… they are more revealing than sensational events. Here the shift from the 'significant' facts to the sum total of everyday events corresponds exactly to the shift from appearance to reality…"[64] If we heed what Lefebvre is calling for, we would not focus on figuring out where we deviated from the universal rationality, calling forth a crisis crashing down upon our heads. The crisis is experienced in our everyday lives; so this is where the critique should lie, as well.

There has been some theoretical work done for how "financial" crisis actually affect us in the realm of everyday life. Lefebvre notes that the moment of crisis or decisive action is the result of just such a split, a disavowal to continue living a kind of everyday life focused on deprivation as a complement to individual financial accumulation through speculation.[65] In more contemporary works by Thomas Frank and Randy Martin, there is an impressive cataloging of

---

[63] Henri Lefebvre, *Everyday Life in the Modern World* (Transaction Publishers,U.S., 1985), 21.
[64] Lefebvre, *Critique of Everyday Life*, 135.
[65] Ibid., 160.

the various ways in which our everyday lives are invited to further internalize this speculative strategy of individual existence through financial accumulation, with the lure of market participation masquerading as liberation – although as I mentioned above, if one defines freedom by ones ability to participate in financial markets, then that goal is a worthy one.

I argue against such an understanding of freedom, and the individual speculation of market participation. As Lefebvre puts it: "The proletariat will appear to be making a decisive step towards freedom whenever it 'shares in the profits' of a business, or becomes a shareholder, or has a vote in the nomination of a management committee, etc."[66] This idea comes well before the "ownership society" narratives of the last decade, but has the cultural implications of supposedly reconfiguring the possibles, even if the harmony proffered is an illusion. To put it in terms of economic lingo, the *rentier* class is going long on cooptation of the working classes and going short on political mobilization. The gambit seems to be working, with a wide swath of literature poring over how the working classes act in the opposite of their class interests. This push toward freedom as freedom to participate in the market is not new, but it still serves to isolate units and mystify their practices of everyday life. The financialized life is an opportunity to try and secure enough financial accumulation for ourselves, and as such becomes our ethical responsibility. The gap between that narrative and the realities of the everyday life produced by finance capital is the best place to talk about a crisis.

### 5.9 Minsky as a Political Economist of Everyday Life

Minsky was fond of saying that he stood on the shoulders of Keynes, and Keynes stood on the shoulders of Marx and Marshall.[67] A theory of crisis shows the instability from a number of vantage points. Politically, a crisis of legitimation in the constellations of power, culturally in

---

[66] Ibid., 157.
[67] Minsky, "The Breakdown of the 1960s Policy Synthesis," 54.

the contested area of possbiles, and economically in production and accumulation process itself. Institutionally, instability emerges across space, culturally, as well as across time, financially. All of this is to say that to limit the concept of instability to the specific and occasionally clearly delineated realm of the academic discipline economics, misses out on a lot of these different aspects of instability, but especially the instability of everyday life. It is not a far cry from Minsky's stated purpose to supplement the Financial Instability Hypothesis with a concurrent Social Instability Hypothesis in the realm of the everyday lives of citizens.

Even though Minsky himself may have had a limited scope of what it mean to discuss the social, there is an impulse there that I argue makes him an excellent candidate to pull into the ranks of properly social political economy. On the one hand, this is true by definition, because his arguments for the future of finance capitalism rest on how we distribute the social surplus through directed public investment and the euthanasia of the *rentier*. But on the other hand, even though his attempt at social theorizing was incomplete, a Minskian political economy can supplement his attempts at displaying the social consequences of financial instability with a critique of the instability of everyday life that results from the social relations of a specific mode of finance capitalism. Unemployment is thus not a metric that must fall somewhere within the natural range, it is a social evil unto itself.

Minsky critiqued the endemic instability of financial capitalism, but fell short of actually using that as a critique against financial capitalism itself. Where I will take his analysis though will do just that, as I argue that in a Lefebvrian tradition, a critique of everyday life is just such a contribution to a critique of capitalism itself. By pulling his political economy into the realm of everyday life through the politico-cultural synthesis offered above, we might keep the biting social critique of capitalism that Minsky gives us, without falling prey to a new neoclassical synthesis that enfeebles his incisive social preanalytic vision. Minsky's unique and critical insight is indeed one in which democracy is challenged by the encroachment of market society, and Minsky's political economy is a rare one that confronts not only the inherent tendency toward occasional breakdown – many in the literature of finance will quickly utter Minsky's name when that happens – but to go beyond that and use it to criticize capitalism itself for failure. Much like Minsky described the capitalism of 1933 a failure, ushering in an urgent need to renegotiate the social relations of the United States, Minsky now gives us the analytical tools to answer the question: is capitalism a failed order? I conclude that it is a failed order. While not on the same magnitude as the failure of American capitalism in 1933, with massive unemployment/underemployment, widespread poverty, and crumbling infrastructure, it does not matter if the financial sector has recovered, the crisis of everyday life displays how money manager capitalism is unable to deliver the goods.

## CHAPTER SIX: Conclusion

This analysis begins with a conjecture that as an academic field of study, political economy is at a low point. It is either confined to some historical curiosity, a sign of a dusty historical link between the moral sentiments of the first political economists and the mathematical rigor and precision of the guru economists, or it is relegated to a tool in the economist's box, to be deployed when needed to explain why certain policies do not see their intended effects, or indeed why certain policies are not tried in the first place. This work works toward re-opening a concept of political economy that is both properly political as well as properly social. Minsky gives a vision for political economy wrapped up in the preceding five possible definitions, and through this dissertation's analysis of them, presented an argument for an interdisciplinary vision of a socially understood political economy in order to politicize and open up spaces of critique and renegotiation during times of crisis.

In the still-unfolding aftermath of the financial crisis that began in 2007, there has been some attempt at trying to figure out how this all happened. One of the economists brought into the fold in popular discourses was Hyman Minsky, whose Financial Instability Hypothesis gave a persuasive argument that capitalism is an unstable system, because during booms, the debt that firms and households take on becomes crushing, so that when asset prices fall - however meagerly – a collapse soon follows. There is more to Minsky's story, however. As has been made clear throughout this analysis, his hypothesis did not merely seek to explain crises (as explaining a crisis as if it were an anomalous event would be to assume that the process of accumulation is otherwise smooth), but to use the observations of crises as evidence of the instability of financial capitalism itself.

The goal of this dissertation was to show how Minsky's political economy might be deployed in such a way as to give a political and social language for a critique of capitalism itself. Bringing Minsky into such a discussion, as I have shown, is not a way to shoehorn in an academic economist for the purposes of legitimacy. Rather, bringing Minsky in to the explicitly political and social, as my archival work on Minsky indicates, is exactly where he was attempting to go. Even though he lacked the vocabulary to do so, his work nevertheless lays the foundation for such a synthesis with social/institutional analysis. It is clear that as Minsky attempted to define political economy, each of his definitions moved in such a way as to invite integration with a more complete and complex social analysis.

### 6.0 Minskian Synthesis

Minsky is not the first political economist to voice concern about the social category of economics. In fact, it is more appropriate to say that the dearth of social considerations in much of academic economics is the anomaly. That there is a need to synthesize Minsky with his explicitly stated focus on his Institutionalist heritage suggests that there are other possible syntheses one can attempt with Minsky. One such synthesis is the same fate that Minsky argues Keynes suffered: a new neoclassical synthesis. Many reputable mainstream academic and journalistic media outlets such as *The Wall Street Journal*, *The Financial Times*, and *The Economist* have proclaimed the relevance of Minsky's political economy, even if it caught on a little too late to prevent the impending financial disaster.[1] This attitude seems to vindicate Minsky's tongue-in-cheek critique of economics: "Economics is an odd discipline. The seeds of counterrevolution were 'in place' before the revolution."[2] Minsky's diagnosis of how markets

---

[1] Jan Kregel, "Minsky's Cushions of Safety: Systemic Risk and the Crisis in the U.S. Subprime Mortgage Market" (The Levy Economics Institute, Public Policy Brief No. 93, 2008), 7.

[2] Minsky, "The End of Laissez Faire: 1987 Style," 3.

become increasingly and endogenously unstable was there before the instability began. Such a *mea culpa* for not heeding Minsky's work is well enough, but when the body of work he produced about endogenous instability creating a financial capitalism that simply cannot stop increasing fragility, then even if the leading financial periodicals look at Minsky, it does not abort the increasing fragility. Such lip service to Minsky is a new neoclassical synthesis; a recognition that every so often capitalism goes into crisis. The preceding chapters show that Minsky's analysis goes so much deeper than that.

We must avoid that synthesis and rather synthesize Minsky's analysis with a social critique. Minsky's Financial Instability Hypothesis (FIH) is the best hypothesis to understand how the world of finance operates in the observable world. The institutional vision of how money manager capitalism operates does not allow for hindsight hand wringing, or bemoaning "bad apples," or the venality of whatever group of people. His famous aphorism that "stability is unstable" speaks to the irresistible compulsion of firms and households to leverage up on debt levels during boom times, under the assumption that asset prices will only continue to go up. When they do, then financial capitalism works, but it only works until it stops working. That attitude, taken along with the explicit evolution of capitalism given to us by Minsky – in particular the shift from managerial to money manager capitalism – should negate the narrative of financial crisis that posits the merits of individuals against the already-existing machinery of financial capitalism, where crisis represents bad people throwing wrenches in the machine of the otherwise smooth operation of market society. The FIH then is not simply a tool by which the economic order might see in retrospect where and when it overleveraged on debt, but rather compels to analyze the broad swaths of financial movement and the social relations behind it. If one imagines a concurrent "Social Instability Hypothesis," Minsky's social vision might come closer to the fore, recalling that Minsky was keenly aware that the problems of endogenous financial instability was the resulting degraded social relations: unemployment, poverty and crumbling infrastructure. When one pursues the synthesis of financial and social instability, the categories of money, interest rates, and the role of financial institutions in society take on entirely different characteristics. Such a synthesis would thus deny, in Minskian terms, that there an ever be such a thing as a purely financial crisis, without the resulting social crisis.

### 6.1 Language of Crisis and the Response of Economics

In such a spirit, building an interdisciplinary Minskian political economy is not simply a way to give a better, or even merely an alternative, narrative of the crisis that the United States entered in 2007. Minskian political economy does not simply explain certain events, and limiting the analysis to that would be very close to a new neoclassical synthesis. Rather, a full integration of Minsky's political economy with political and social theory gives us the preanalytic tools to understand crisis itself in advanced industrial democracies. The social synthesis of Minsky's political economy gives this vision in two ways: in the financial realm of institutions and in the social realm of the everyday lives of citizens.

Financial crisis visits the social institutions of advanced industrial democracy when they are unable to make payments on existing debt obligations. This is an unavoidable characteristic of capitalist accumulation, recalling the argument made by Keynes that debt instruments finance most of the capital assets of advanced industrial democracy. The irresistible movement toward crisis then indicates that capitalism performs its task poorly, most firms that engage in building capital assets through debt fail and must be restructured or liquidated, and massive expansions only seem to be indicative of a debt run-up that is bound to collapse. These attritive characteristics of financial capital are cause for concern. If these are the proper rent-seekers in an economy and they do their job so poorly, then the unavoidable crises will be ever larger in magnitude.[3] There is a wealth of social theory that we derive from such propositions, for instance the managed transition to socialism to which Schumpeter resigned himself, to the market socialism of the Lange-Lerner theorem Minsky supported. In any event, there is an unmistakable need for society to protect itself from the encroaching, or possibly deteriorating, market system, *pace* Polanyi.

Social crisis, as my last chapter indicates, is a rupture or degradation of the everyday lives of citizens. There is an inexorable link between this rupture and the institutional crisis discussed above. After all, why would a political society care if institutional crisis were strictly limited to the institutions themselves? Obviously there is no need for the institutional arrangements if there were no link to the social relations of citizens. Creditworthiness of people, decided by the institutional arrangements of financial capitalism during the euphoric boom of hedge Finance, becomes debt-unworthiness when firms are having a hard time maintaining their payment obligations during a period of Ponzi Finance. Both the creditors and the lenders maintain the same relationship, but creditworthiness becomes debt-unworthiness. Both the institutional relationship among firms changed in the slide from hedge to Ponzi financing, and the everyday lives of the borrowers become frayed when their debt loads go from being an asset to be borrowed against for greater consumption to being a liability that deprives them of opportunities.

So while chapter two critiques the academic discipline of economics, this is not to suggest that all economists or that some economic theory is not helpful to formulate a political response to crisis. But as the discipline continues to hollow out the category of the social, it

---

[3] With the Institutionalist framework in mind, these allegations once again unite disparate thinkers such as Marx, Veblen and Keynes.

becomes increasingly difficult to situate a given economic model in a social context. Models in themselves tell us very little, as Minsky also often noted Peter Albin's aphorism: "the agents in the model have a model of the model."[4]

The inability of the academic field to give a comprehensive social vision is observable in the major journals of the American Economics Association (AEA). Even though one finds the occasional article about mortgages (subprime or otherwise), moral hazard, regulation, or central bank policy, there are far more articles having to do with how data are hard to come by or are unreliable or generally glossing over how the discipline has failed to give a social vision to deal with the resulting morass from the crisis. This compartmentalized analysis, or in some cases, refusal to publish crisis literature leads one to believe that the profession is still clinging to a defunct equilibrium theory and is thus unable to give the comprehensive view needed.

Rogoff and Reinhart are among the first to confront the financial crisis (although at the time it was merely the "subprime" crisis of 2007) in the flagship journal of the AEA, the *American Economic Review*. It is worth noting that their analysis is not a broad theory of crisis itself, but rather a wondering about why financial firms in the United States lent out so much money to so many people who, in hindsight, were so obviously not creditworthy. Left out is the admission that at one point these same people must have ostensibly been deemed creditworthy or else the loans would not have been made. There are interesting discursive parameters being set in this initial confrontation of the burgeoning crisis. In the first instance, there is the isolation mentioned above: the mortgage crash was mostly a problem of subprime lending because of a

[4] Hyman P. Minsky, "A Positive Program for Successful Capitalism" (Hyman P. Minsky Archive. Paper 74, 1995), 11, http://digitalcommons.bard.edu/hm_archive/74. There are dozens of other places where this quotation makes an appearance, however.

general fall in housing prices.[5] Had the general housing price level not fallen, all those subprime loans would still be in good shape, one supposes. The other discursive frame is historical continuity: the authors reassure the reader that financial crisis and panics in the United States are nothing new, we have seen this all before.[6] There is not a picture of why the housing price level dropped, or why the profession had a lapse in its assessment – then again, in the world of neoclassical economics, to put it in Minskian terms, chooses not to see the instability in the hedge and speculative modes of finance.

Other economists chose to pursue a path that argued that perfect or incomplete information prevented the profession from seeing the massive credit crunch coming its way. One of the hallmarks of a robust economy, apparently, is consumer debt and access to credit, noting that the average American in 2009 had $23,000 in nonmortgage debt.[7] The problem in this reading is that borrowers are likely to default on large loans, and the short-term preference of lenders leads to a drying up of credit.[8] It is a curiosity that the authors seem to think that the absolute size of the loan determines the borrower's ability to pay it back, and not, say the absolute size of the borrower's income or assets.[9] These economists try to make sense of why borrowers were so quick to want to refinance their homes when their values were plummeting. The Minskian, institutional reading gives an answer to this question. In a period of Ponzi Finance, consumers sought short-term liquidity through the sales of assets in order to make their payments, or tried to refinance and take on a higher debt load to make existing payments. In other words, people were liquidating or attempting to access credit/debt because they had bills to

---

[5] Carmen M. Reinhart and Kenneth S. Rogoff, "Is the 2007 US Sub-Prime Financial Crisis so Different? An International Historical Comparison," *The American Economic Review* 98, no. 2 (May 2008): 340.
[6] Ibid., 343–4.
[7] William Adams, Liran Einav, and Jonathan Levin, "Liquidity Constraints and Imperfect Information in Subprime Lending," *The American Economic Review* 99, no. 1 (March 2009): 49.
[8] Ibid., 50.
[9] Ibid.

pay. The inverse of this narrative shows the institutional circumstances beyond individual control. During the run-up of the hedge finance economy, banks were searching for creditworthy customers.[10] Customers were invited to take on a load of debt and extract value from that, and banks were all too happy to issue a line of equity for a few percentage points over the ordinary mortgage rate.[11] Thus, the expected returns determined the behavioral expectations of borrowers. During booms, taking on debt and refinancing is seen as a way to get easy access to money to fuel consumption, but during the deflation, it is irresponsible behavior when credit dries up. Either way, it is the same behavior on the part of the borrowers, but the institutional configurations around them change. In this respect, it is clearly not a matter of complete or perfect knowledge that fails to foretell a crisis.

The last main strand of crisis focuses on the imperfection of the aggregate data as an excuse for economists to have been caught unawares at the onset of the subprime, then financial, then social crisis. The national accounts just are not good enough for telling us about impending financial fragility.[12] While this may be true for the representative orthodoxy, heterodox economists like L. Randall Wray were sounding the alarm for impending financial catastrophe during the Clinton administration, noting that the bubble must burst (as well as noting that in a Chartalist framework, the budget surpluses were hastening a recession because the government was destroying money).[13] Wray and others made their diagnoses with the same imperfect national accounts (NIPA) data. This is not to defend NIPA as the absolute measure of a nation's

---

[10] Journalist Matt Taibbi's 2010 work *Griftopia* chronicles how mortgage brokers literally approached people on the streets asking them if they could give them a loan for a house.

[11] John Cassidy, *How Markets Fail: The Logic of Economic Calamities*, First ed. (Picador, 2010), 251.

[12] Michael G. Palumbo and Jonathan A. Parker, "The Integrated Financial and Real System of National Accounts for the United States: Does It Presage the Financial Crisis," *The American Economic Review* 99, no. 2, Papers and Proceedings of the One Hundred Twenty-First Meeting of the American Economic Association (May 2009): 84.

[13] L. Randall Wray and Dimitri B. Papadimitriou, "What to Do with the Surplus: Fiscal Policy and the Coming Recession" (The Levy Economics Institute, Policy Note 6, 1998), 3.

economic activity, but it does illuminate how, as argued in the preceding chapter, there is more to political economy than data. The irony though is that many economists argue that they should be limited to the data. If they cannot make the data work or find it difficult to properly utilize the data, then it becomes hard to say anything at all.

The rest of the AEA-sanctioned journals have had a similar low-intensity engagement with the complete problem of the subprime-cum-financial crisis. The *Journal of Economic Literature* had one section in 2011 about how the financial crisis affected the performance of the money multiplier. Aside from that issue, however, the *Journal of Applied Economics* and the *Journal of Economic Policy* had very little to say in response to the crisis. There is one notable exception, and that is the journal that Joseph Stiglitz co-founded, the *Journal of Economic Perspectives*. In an anniversary issue, Stiglitz mentions Minsky by name, suggesting that this is the journal where some of the marginalized voices in the field might find a home.[14] Outside of that mention, however, Minsky has not appeared in this journal except as a footnote in the last decade. That in itself is not a ground for critique; and indeed *Economic Perspectives* does make an effort to give a more holistic vision of the financial crisis, even though it ultimately has thus far failed to do so. For instance, while the flagship journal was still putting forth that the crisis was only in the subprime market, in the spirit of the Reinhart and Rogoff article cited above, or that the data were unable to tell us what was occurring. *Economic Perspectives* considered a broader, if still incomplete, vision of the crisis. Among them is the argument that subprime and Alt-A mortgages were far riskier than valuated from the beginning.[15] Mayer et al also note that this improper evaluation of risk of loans is not the fault of venality in either the lender or the

[14] Joseph E Stiglitz, "The Journal of Economic Perspectives and the Marketplace of Ideas: A View from the Founding," *Journal of Economic Perspectives* 26, no. 2 (May 2012): 24.
[15] Christopher Mayer, Karen Pence, and Shane M Sherlund, "The Rise in Mortgage Defaults," *Journal of Economic Perspectives* 23, no. 1 (January 2009): 31–3.

borrower, but has a lot to do with the opacity of the mortgage contracts, and the many-degrees-removed "owner" of securities containing these sliced-up mortgages.

It is easy enough to see from some of the rudimentary data that the subprime mortgage industry was due to explode, but the question still remains: what then threw the entire global economy into crisis? There are some sensible arguments that the interconnected and opaque instruments of which subprime mortgages were comprised caused other assets to underperform, spreading the crisis contagion.[16] It is worthwhile here to pause and notice the dates on these most recent pieces: early 2009, so it is safe to assume that these were written when it looked like this subprime crisis may well blow over. By the end of 2010, there are familiar discussions about how even though the discipline got it wrong, they got it right. To wit:

> The failing of macroeconomics in the last few years was not a lack of understanding of what happens in the overall economy when a financial crisis strikes. Conditional on a large decline in asset values among financial institutions, we got things right. Instead, the failings lie elsewhere… only a few economists… understood that anything that went as high as real-estate valuations in 2005 *would have to come down at some point*… We did not consider that, if such a decline occurred, financial chaos would ensue… many macroeconomists failed to foresee a financial crisis as the situation evolved after 2005 because financial markets had handled the huge decline in asset values in 2000-2001 so smoothly.[17] [emphasis added]

In other words, they would have gotten it right if they had not misunderstood the underpinnings of the crisis! Also of note are the multiple narratives, especially where Hall suggests that this time *was* different than the tech bubble, and Reinhart-Rogoff, who suggest that we have been down this path many times before.

On some level, however, it is inappropriate to expect self-flagellation from the discipline. But there are two very striking things to conclude from this brief excursion

---

[16] Markus K Brunnermeier, "Deciphering the Liquidity and Credit Crunch 2007–2008," *Journal of Economic Perspectives* 23, no. 1 (January 2009): 77–100.

[17] Robert E Hall, "Why Does the Economy Fall to Pieces After a Financial Crisis?" *Journal of Economic Perspectives* 24, no. 4 (November 2010): 17–18.

into the economic literature. First, there is some semblance of understanding that they failed to meet the very low standards they set for themselves. As chapter two indicates, in particular through the legacy of Friedmanite positivism, the economist can only ever see/gather/interpret the data as she finds them. Saying the data are incomplete or that they were misinterpreted is then tantamount to admitting that the profession has not successfully completed its task. Second, there is a simultaneous abdication of responsibility. The consequence of this is simply that if an interested citizen were to try to piece together the confluence of causes of the crisis and the far reaches of its consequences, they would gain nothing by becoming a member of the American Economics Association. Even if they did "get it right," that matters little by way of repairing damaged social relations from financial instability. In other words, there is more ample evidence for approaching political economy from an interdisciplinary standpoint as expounded upon in the preceding chapter.

**6.2 Is Capitalism a Failed Order?**

A foundational aspect of Minsky's academic inquiry was whether a depression, like the United States and the globe sustained in the 1930s, could happen again. If it could happen again, then the question becomes what levers and mechanisms are in place or need to be in place for it to prevent such a state of affairs. A question of whether capitalism is a failed order is precisely a Minskian proposition. Ultimately, Minsky did not believe capitalism to be a failed order, because the government was big enough (in terms of consumption percentage of GDP) and intervened when needed to turn Ponzi financial units back into hedge financial units. Still, he seemed to assume that this would be the case in the foreseeable future, even in the face of the breakdown of the Keynes-Rooseveltian synthesis. Hence, the question facing the United States following the collapse of the Soviet Union was how to establish capitalism in formerly non-capitalist countries, how to reform capitalism in already-existing market societies, and how to make capitalism work, so that it can make good on what it purports to do, e.g. "to deliver the goods." However, it is worth noting that Minsky also did not live long enough to see the 2007 crisis.[18] While Minsky himself believed that capitalism simply needed rehabilitation in the United States, this is relatively unimportant – by establishing the political and social vision that goes along with Minsky's economic theory, we are invited to decide for ourselves whether capitalism is a failed order.

The analysis of failure should be problematized, though. On the one hand, as Marx tells us, capitalism's spasmodic surging and contracting, with the concomitant uneven development is a far different tale than the "Elysian equilibrium" of Friedman's political economy of smooth accumulation with the occasional and regrettable hiccup. Marx's general tendencies may be correct, but capitalism at the very least works for the ruling classes, or some privileged segments of middle classes. Capitalism does not always fail at the same place and at the same magnitude across equal swaths of a given population. The point about uneven development, however, opens up spaces to ask about what a failure of capitalism means. On the other hand, for the Austrian school, liquidation (what Minsky would call a Fisherian debt-deflationary spiral) is a sign of the success of capitalism and not failure. The problem with such a position, however, is that capitalism by definition can only ever succeed – either in the accumulation process or in the liquidation process of crisis. However, that tells us very little about the social relations in the everyday lives of citizens. A more fruitful area of future research would take into account the Minskian dimensions of financial and social instability to ask the questions Minsky asks: is a

[18] Although his sustained critique of money manager capitalism enshrined by the Reagan regime suggests that a crisis of such spectacular destruction would be unsurprising to him.

level of involuntary unemployment for those willing to work? If so, wealthy advanced industrial democracies ought to be able to address the problem. I argue that unemployment and poverty are socially-provided evidence of the failure of financial capitalism for, at the very least, a subset of the population.

If one decides that capitalism is a failed social order, or is a failed order for some citizens some of the time, then total failure becomes a numerical threshold. If financial capitalism does not deliver the goods for enough people, the system is in peril. How many and under what conditions is unknowable, but having a preanalytic social vision can help offer alternatives to the dominant social order.

### 6.3 Moving Beyond Minsky: Future Research

Even though Minsky is not a Rosetta Stone to fully comprehend, deal with, and resolve for all time financial crises (indeed, he would be the first to say this), his political economy tries to address social ills and allows us to entertain interventions that are not beholden to the economic orthodoxy. Even some seemingly basic propositions such as debt forgiveness are not seriously entertained by the economic orthodoxy. This resistance makes sense since a debt jubilee would be an explicit movement to repair social relations by way of relieving the debtor of their obligations and is not ideologically aligned with servicing the rent-seeking financier as the proper conduit to receive profits. Nevertheless, with the Chartalist understanding of how money works in advanced industrial democracies, which are the single issuer of their currencies, such a debt repudiation is well within the realm of possibility.

Setting up an Employer of Last Resort policy is also a possibility. Minsky often bemoaned that the United States simply did not take its "war" on poverty very seriously – a nation as rich as the United States could have obliterated poverty, but chose not to. While

Minsky himself envisioned such a program mostly as a warmed over new New Deal, there are all sorts of possibilities for such an employment policy, from infrastructure to intergenerational care. Minsky does not give a bit of thought to whether these programs are "affordable," or perform a cost-benefit analysis of the practicalities of these implementations. He operates on the conviction that unemployment is a social ailment. Therefore, an Employer of Last Resort prescription is the best way to address that illness.

In the same way, Minsky's project has given us interesting avenues to understand how capitalist economies actually work. Modern Money Theory, which one of the founders named Minsky an intellectual forefather, argues that the state chooses to pursue what it perceives to be the public good and thus issues money to try to achieve those desired results, explicitly acknowledging the communicative power of money. The political and social dimensions might add that this money is merely a medium of social relations, communicating class relations between and among citizens in an advanced industrial democracy. To pursue such a policy of the public good is not new, but if we were to pursue why advanced industrial democracies have such a hard time achieving these ends has to do with the entrenchment of class relations. Advanced industrial democracies choose not to pursue full employment, in other words because that might bid up wages, which the *rentiers* in power resist mightily.

One of the most pressing avenues of further research coming out of this dissertation is something that Minsky himself recognized as one of his own shortcomings, which is formulating a positive political economy from the critique of existing political economy. I deploy the term "positive" here in the same way that Marcuse uses it to suggest that an appropriate critique is one that makes political economy "adequate for its task."[19] I argue that Minsky's generally weak

[19] Herbert Marcuse, *Studies in Critical Philosophy* (Beacon Press, 1973), 5.

prescriptive program is simply symptomatic of the limits of his vision, and the task of research going forward with a sociopolitical Minskian theory is to formulate that positive program that formulates a positive political economy to provide for a high standard of living in advanced industrial democracies, and address the social ills wrought by capitalism's inability to perform its task.

There are economists who are working in this vein to make political economy adequate to its task, although they are not a monolithic or even very forceful voice in their own discipline. Heterodox economists are diffuse and spread out, held together mostly by the power of the Internet, finding it difficult to publish in AEA journals or get tenure at Research I universities. Some of the old associations still survive even if in diminished roles, such as the Union for Radical Political Economics, which now exists almost exclusively as a listserv and tiny publishing imprint. The Post-Autistic Economics movement re-coalesced into the World Economics Association, and ad-hoc Internet groups such as Econ4 have lent some effort to helping social movements such as Occupy Wall Street to formulate a policy agenda. Even some academic economics departments are gaining attention in popular discourse, if for no other reason than they seem to be giving more persuasive analyses of the crisis than economists representing the orthodoxy.[20] These groups, however, skirt a fine line. One the one hand, it is laudable that a group of economists are genuinely reaching out and interacting with other social sciences and the humanities, in a way that Minsky would have liked to see given his final definition of political economy. On the other, these agendas can veer too far into the territory of merely wishfully hoping that one policy program gets replaced by another instead of questioning

[20] One such place is the University of Missouri Kansas City, whose most prominent members were primary subjects in an article about economic heterodoxy in the June 2012 issue of *Playboy*.

the foundations of financial capitalism. If this is what the heterodoxy are content with, then they should not be surprised by their continued sustained marginalization in the profession.

### 6.4 Concluding Remarks

To say that the economy is inherently political, or that it is always already embedded in a given society, is not anything new. This dissertation strives to not only argue for a relationship between these categories, but also to fully enmesh demands for an interdisciplinary approach with a social vision enabled by the political economy of Hyman Minsky. We cannot simply tinker in the economic and ignore political dimensions such as sovereignty, just as we cannot pretend that there is a natural rate of unemployment when social relations for the unemployed become frayed.

Minsky was keenly aware that financial institutions take advantage of whatever technological innovation is possible, and they will always try to evolve in such a way as to elude the regulatory regime of the state, whose intractable complexity leads to endogenously fueled debt crises.[21] Glass-Steagall cannot help us now, nor will any other institutional quick fix. Such fixes would be, in a Minskian spirit, transitory, open to evasion, and continually up for renegotiation. At some point, it is prudent to wonder whether this cat-mouse method of debt-financing a nation's capital assets is really the best way to secure a high standard of life for all of its citizens.

A robust political economy cannot ignore the relationship between the state and the market; how the state sets the arena of market society and the possibility of firms negotiating the rules thereof. Polanyi is mostly correct about society protecting itself against the encroachment of market relations, lest society itself crumble. I would add to it that a better description is less of

[21] Mirowski, "Inherent Vice: Minsky, Markomata, and the Tendency of Markets to Undermine Themselves," 441.

an encroachment of the market, which makes the process sound like some invincible force. Rather the market decays around us, and society begins to buckle under the weight of the detritus. Minsky, when not subjected to a new neoclassical synthesis, is an invaluable social thinker who can help us envision new modes of social relations.

## WORKS CITED


Adams, William, Liran Einav, and Jonathan Levin. “Liquidity Constraints and Imperfect Information in Subprime Lending.” *The American Economic Review* 99, no. 1 (March 2009): 49–84.

Ball, Laurence, and N. Gregory Mankiw. “The NAIRU in Theory and Practice.” *The Journal of Economic Perspectives* 16, no. 4 (October 1, 2002): 115–136.

Baran, Paul A., and Paul M. Sweezy. *Monopoly Capital: An Essay on the American Economic and Social Order*. 1st Modern Reader Paperback Ed. Monthly Review Press, 1968.

Barbera, Robert. *The Cost of Capitalism: Understanding Market Mayhem and Stabilizing Our Economic Future*. 1st ed. McGraw-Hill, 2009.

Bellofiore, Riccardo, and Joseph Halevi. “Magdoff-Sweezy, Minsky and the Real Subsumption of Labour to Finance.” In *Minsky, Crisis and Development*, edited by Jan Toporowski and Daniela Tavasci. Palgrave Macmillan, 2010.

*BIS Quarterly Review*. Bank for International Settlements, December 2011. http://www.bis.org/statistics/otcder/dt1920a.pdf.

Bourdieu, Pierre. *The Field of Cultural Production: Essays on Art and Literature*. New Ed. Columbia University Press, 1994.

Bronfenbrenner, Martin. “Schumpeter and Keynes as ‘Rich Man’s Karl Marxes’.” In *The Economic Law of Motion of Modern Society: a Marx-Keynes-Schumpeter Centennial*, edited by Hans-Jürgen Wagener and Jan W. Drukker. CUP Archive, 1986.

Brown, Wendy. *Edgework: Critical Essays on Knowledge and Politics*. Princeton University Press, 2005.

Brunnermeier, Markus K. “Deciphering the Liquidity and Credit Crunch 2007–2008.” *Journal of Economic Perspectives* 23, no. 1 (January 2009): 77–100.

Bullard, James. “Measuring Inflation: The Core Is Rotten.” *Federal Reserve Bank of St. Louis Review* 93, no. 4 (August 2011): 223–33.

Cassidy, John. *How Markets Fail: The Logic of Economic Calamities*. First ed. Picador, 2010.

CBSNews. “Fed Chairman Ben Bernanke’s Take on the Economy”. 60 Minutes, December 6, 2010. http://www.cbsnews.com/2100-18560_162-7114229.html?pageNum=2&tag=contentMain;contentBody.

Cooper, George. *The Origin of Financial Crises: Central Banks, Credit Bubbles, and the Efficient Market Fallacy*. 1st ed. Vintage, 2008.

Crotty, James R. “Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy.” In *Marx, Schumpeter, & Keynes: A Centenary Celebration of Dissent*, edited by Suzanne W. Helburn and David F. Bramhall. Armonk, N.Y.: M.E. Sharpe, 1986.

Crotty, James R. “Rethinking Marxian Investment Theory: Keynes-Minsky Instability, Competitive Regime Shifts and Coerced Investment.” *Review of Radical Political Economics* 25, no. 1 (March 1993): 1–26.

Crotty, James. “The Centrality of Money, Credit, and Financial Intermediation in Marx’s Crisis Theory: An Interpretation of Marx’s Methodology”, 1985.

Davis, Gerald F. *Managed by the Markets: How Finance Re-Shaped America*. Oxford University Press, USA, 2009.

Dolan, Mike. "Analysis: Greek Default May Be Gift to Other Euro Strugglers." *Reuters*. London, March 7, 2012. http://www.reuters.com/article/2012/03/07/us-markets-restructuring-idUSTRE8260E320120307.

Evans, Eric J. *Thatcher and Thatcherism*. Psychology Press, 2004.

Farhi, Emmnauel, and Jean Tirole. "Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts." *American Economic Review* 102, no. 1 (2012): 60–93.

Fazzari, Steve, and Hyman Minsky. "Domestic Monetary Policy: If Not Monetarism, What?" *Journal of Economic Issues* 18, no. 1 (March 1984): 101–116.

Fligstein, Neil. *The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies*. Princeton University Press, 2002.

Friedman, Milton, and Michael Bordo. *The Optimum Quantity of Money*. Transaction Publishers, 2005.

Friedman, Milton. *Essays in Positive Economics*. Chicago: University of Chicago Press, 1966.

Friedman, Milton, and Anna Jacobson Schwartz. *A Monetary History of the United States, 1867-1960*. Princeton University Press, 1971.

Gatti, Domenico Delli, Mauro Gallegati, and Hyman P. Minsky. "Financial Institutions, Economic Policy." In *Behavioral Norms, Technological Progress, and Economic Dynamics: Studies in Schumpeterian Economics*, edited by Ernst Helmstädter and Mark Perlman. University of Michigan Press, 1996.

*GDP (current US$)*. World Bank, 2010. http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries?display=graph.

Hall, Robert E. "Why Does the Economy Fall to Pieces After a Financial Crisis?" *Journal of Economic Perspectives* 24, no. 4 (November 2010): 3–20.

Harcourt, Bernard E. *The Illusion of Free Markets: Punishment and the Myth of Natural Order*. Harvard University Press, 2011.

*Harmonised Long-term Interest Rates for Convergence Assessment Purposes*. Long-term Interest Rate Statistics for EU Member States. European Central Bank, n.d. http://www.ecb.int/stats/money/long/html/index.en.html.

Harvey, David. *A Brief History of Neoliberalism*. Oxford; New York: Oxford University Press, 2005.

———. *A Companion to Marx's Capital*. Verso, 2010.

Heilbroner, Robert L. *The Worldly Philosophers: The Lives, Times And Ideas Of The Great Economic Thinkers [7th Edition]*. Revised 7th. Touchstone, 1999.

Heinrich, Bortis. "Notes on the Surplus Approach in Political Economy." In *Capital Controversy, Post Keynesian Economics and the History of Economic Thought: Essays in Honour of Geoff Harcourt*. Vol. 1. Routledge, 1996.

Henwood, Doug. *Wall Street: How It Works and for Whom*. Verso, 1998.

Hilferding, Rudolph. *Finance Capital: A Study in the Latest Phase of Capitalist Development*. Routledge, 2006.

Keynes, J. M. "The General Theory of Employment." *The Quarterly Journal of Economics* 51, no. 2 (February 1, 1937): 209–223.

Keynes, John Maynard. *Essays in Persuasion*. Reissue. Palgrave Macmillan, 2010.

———. *The End of Laissez-Faire: The Economic Consequences of the Peace*. BN Publishing, 2009.

———. *The General Theory of Employment, Interest and Money*. BN Publishing, 2009.

Kindleberger, Charles P., and Robert Aliber. *Manias, Panics, and Crashes: A History of Financial Crises*. 5th ed. Wiley, 2005.
Kregel, Jan. "Minsky's Cushions of Safety: Systemic Risk and the Crisis in the U.S. Subprime Mortgage Market". The Levy Economics Institute, Public Policy Brief No. 93, 2008.
Krugman, Paul. "Actually Existing Minsky." *The Conscience of a Liberal*, May 19, 2009. http://krugman.blogs.nytimes.com/2009/05/19/actually-existing-minsky/.
———. *The Return of Depression Economics and the Crisis of 2008*. Reprint. W. W. Norton & Company, 2009.
Lefebvre, Henri. *Critique of Everyday Life: Introduction (Vol. 1 of 3) (Critique of Everyday Life*. Translated by John Moore. Special ed. Verso, 2008.
———. *Everyday Life in the Modern World*. Transaction Publishers,U.S., 1985.
Lerner, Abba P. *Flation: Not Inflation*. Penguin (Non-Classics), 1973.
MacKenzie, Donald. *An Engine, Not a Camera: How Financial Models Shape Markets*. The MIT Press, 2008.
Marcuse, Herbert. *Studies in Critical Philosophy*. Beacon Press, 1973.
Marx, Karl. *Capital: A Critique of Political Economy, Vol. 3*. Penguin Classics, 1993.
———. *Capital: Volume 1: A Critique of Political Economy*. Penguin Classics, 1992.
———. *Capital: Volume 2: A Critique of Political Economy*. Penguin Classics, 1993.
———. *Theories of Surplus Value - Part One*. Progress Publishers, 1978.
Massad, Tim. "New on the Treasury Website: The TARP Tracker." *Treasury Notes*, June 9, 2011. http://www.treasury.gov/connect/blog/Pages/New-on-the-Treasury-Website-The-TARP-Tracker.aspx.
Mayer, Christopher, Karen Pence, and Shane M Sherlund. "The Rise in Mortgage Defaults." *Journal of Economic Perspectives* 23, no. 1 (January 2009): 27–50.
Mehrling, Perry. "The Vision of Hyman P. Minsky." *Journal of Behavioral Economics and Organization* 39 (1999): 129–158.
Minsky, Hyman. *John Maynard Keynes*. 1st ed. McGraw-Hill, 2008.
Minsky, Hyman P. "A Positive Program for Successful Capitalism". Hyman P. Minsky Archive. Paper 74., 1995. http://digitalcommons.bard.edu/hm_archive/74.
———. "A Positive Program for Successful Capitalism". Hyman P. Minsky Archive. Paper 74, 1995. http://digitalcommons.bard.edu/hm_archive/74.
———. *Can "It" Happen Again?: Essays on Instability and Finance*. M.E. Sharpe, 1982.
———. "Comments to ADA Program". Archival, 1976.
———. "Correspondence Between Hyman Minsky and the ADA". Archival, 1976.
———. "Effects of Shifts of Aggregate Demand Upon Income Distribution." *American Journal of Agricultural Economics* 50, no. 2 (May 1968): 328–339.
———. "Handwritten Note". Archival, n.d.
———. "Innovations in Technology, Labor and Finance: An Integrated Approach to Instability". Hyman P. Minsky Archive. Paper 45, 1985. http://digitalcommons.bard.edu/hm_archive/45.
———. "Letter to 'Paddy'". Archival, n.d.
———. "March 1933/March 1993". Hyman P. Minsky Archive. Paper 264, 1993. http://digitalcommons.bard.edu/hm_archive/264.
———. "Money and Crisis in Schumpeter and Keynes." In *The Economic Law of Motion of Modern Society: a Marx-Keynes-Schumpeter Centennial*, edited by Hans-Jürgen Wagener and Jan W. Drukker. CUP Archive, 1986.

———. “Money Manager Capitalism”. Hyman P. Minsky Archive. Paper 13, 1989. http://digitalcommons.bard.edu/hm_archive/13.
———. “Money Manager Capitalism, Fiscal Independence and International Monetary Reconstruction”. Hyman P. Minsky Archive. Paper 12, 1988. http://digitalcommons.bard.edu/hm_archive/12.
Minsky, Hyman P., Arhur M. Okun, and Clark Warburton. “Comments on Friedman’s and Schwartz’ Money and the Business Cycles.” *The Review of Economics and Statistics* 45, no. 1, Part 2, Supplement (February 1963): 64–78.
Minsky, Hyman P. “Policy and Poverty, Part 3”. Hyman P. Minsky Archive. Paper 10., 1969. http://digitalcommons.bard.edu/hm_archive/10.
———. “Reconstituting the United States Financial Structure: Some Fundamental Issues”. The Levy Economics Institute, Working Paper 69, 1992.
———. “Schumpeter and Finance”. Hyman P. Minsky Archive. Paper 280., January 1, 1992. http://digitalcommons.bard.edu/hm_archive/280.
———. *Stabilizing an Unstable Economy*. McGraw-Hill, 2008.
———. “The Breakdown of the 1960s Policy Synthesis.” *Telos* 50 (Winter -82 1981): 49–58.
———. “The Economic Problem at the End of the Second Millennium: Creating Capitalism, Reforming Capitalism, Making Capitalism Work”. Hyman P. Minsky Archive. Paper 101, April 29, 1993. http://digitalcommons.bard.edu/hm_archive/101.
———. “The End of Laissez Faire: 1987 Style”. Hyman P. Minsky Archive. Paper 317, 1987. http://digitalcommons.bard.edu/hm_archive/317.
———. “The Failure of Official Economics”. Hyman P. Minsky Archive. Paper 135, 1980. http://digitalcommons.bard.edu/hm_archive/135.
———. “The Political Economy of Keynesian Theory”. Hyman P. Minsky Archive. Paper 316, 1987. http://digitalcommons.bard.edu/hm_archive/316.
———. “The Political Economy of Keynesian Theory”. Handwritten. Archival, n.d.
———. “The Strategy of Economic Policy and Income Distribution.” *Annals of the American Academy of Political and Social Science* 409. Income Inequality (September 1973): 92–101.
———. “Uncertainty and the Institutional Structure of Capitalist Economies.” *Journal of Economic Issues* 30, no. 2 (1996): 357–368.
Minsky, Hyman P., and Charles J. Whalen. “Economic Insecurity and the Institutional Prerequisites for Successful Capitalism”. The Levy Economics Institute, Working Paper 165, 1996.
Minsky, Hyman. *Stabilizing an Unstable Economy*. 1st ed. McGraw-Hill, 2008.
Mirowski, Philip. “Inherent Vice: Minsky, Markomata, and the Tendency of Markets to Undermine Themselves.” *Journal of Institutional Economics* 6, no. 4 (2010): 415–443.
———. *More Heat Than Light: Economics as Social Physics, Physics as Nature’s Economics*. Cambridge University Press, 1991.
Morris, Charles R. *The Two Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash*. Revised ed. PublicAffairs, 2009.
Mouffe, Chantal. *On the Political*. New Ed. Routledge, 2005.
Nersisyan, Yeva, and L. Randall Wray. “Transformation of the Financial System: Financialisation, Concentration and the Shift to Shadow Banking.” In *Minsky, Crisis and Development*, edited by Jan Toporowski and Daniela Tavasci. Palgrave Macmillan, 2010.
O’Connor, James. *The Fiscal Crisis of the State*. Transaction Publishers, 2001.

Palumbo, Michael G., and Jonathan A. Parker. "The Integrated Financial and Real System of National Accounts for the United States: Does It Presage the Financial Crisis." *The American Economic Review* 99, no. 2. Papers and Proceedings of the One Hundred Twenty-First Meeting of the American Economic Association (May 2009): 80–86.

Papadimitriou, Dimitri B., and L. Randall Wray. "Minsky's Analysis of Financial Capitalism". The Jerome Levy Economics Institute, Working Paper No. 275, 1999.

———. "The Economic Contributions of Hyman Minsky." *Review of Political Economy* 10, no. 2 (2003): 199–225.

Phillips, Kevin. *Bad Money, Reckless Finance*. Viking Books, 2008.

Polanyi, Karl. *The Great Transformation: The Political and Economic Origins of Our Time*. 2nd ed. Beacon Press, 2001.

Reinhart, Carmen M., and Kenneth S. Rogoff. "Is the 2007 US Sub-Prime Financial Crisis so Different? An International Historical Comparison." *The American Economic Review* 98, no. 2 (May 2008): 339–344.

Reinhart, Carmen M., and Kenneth Rogoff. *This Time Is Different: Eight Centuries of Financial Folly*. Reprint. Princeton University Press, 2011.

Ricardo, David. *Principles of Political Economy and Taxation*. CreateSpace, 2010.

Robinson, Joan. "What Are the Questions?" *Journal of Economic Literature* 15, no. 4 (December 1977): 1318–1339.

Schmitt, Carl. *Political Theology: Four Chapters on the Concept of Sovereignty*. Translated by George Schwab. University of Chicago Press, 1985.

———. *The Concept of the Political*. Revised ed. Chicago University Press, 1996.

Schumpeter, Joseph A. *Capitalism, Socialism, and Democracy: Third Edition*. Harper Perennial Modern Classics, 2008.

Schumpeter, Joseph Alois. *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*. Transaction Publishers, 1934.

Smith, Adam. *An Inquiry Into the Nature and Causes of the Wealth of Nations*. Simon & Brown, 2012.

Stiglitz, Joseph E. "The Journal of Economic Perspectives and the Marketplace of Ideas: A View from the Founding." *Journal of Economic Perspectives* 26, no. 2 (May 2012): 19–26.

"Switzerland's Protectionist Move Unlikely to Pay Off." *The Guardian*, September 6, 2011. http://www.guardian.co.uk/business/2011/sep/06/swiss-franc-protectionism.

Taleb, Nassim Nicholas. *The Black Swan*. 1st ed. Random House, 2007.

Thompson, E.P. *Poverty of Theory*. Monthly Review Press, 1978.

Thornton, Daniel L. "Core Versus Headline Inflation Again". Economic Synopses Number 16, 2011.

Vaggi, Gianni, and Peter Groenewegen. *A Concise History of Economic Thought: From Mercantilism to Monetarism*. 1st ed. New York: Palgrave Macmillan, 2003.

Veblen, Thorstein. *Essays in Our Changing Order*. Transaction Publishers, 1997.

Vercelli, Alessandro. "Minsky Moments, Russell Chickens and Grey Swans: The Methodological Puzzles of Financial Instability Analysis." In *Minsky, Crisis and Development*, edited by Jan Toporowski and Daniela Tavasci. Palgrave Macmillan, 2010.

Walsh, Mary Williams. "Social Security to See Payout Exceed Pay-In This Year." *The New York Times*, March 24, 2010, sec. Business / Economy. http://www.nytimes.com/2010/03/25/business/economy/25social.html.

Weber, Max, David S. Owen, Tracy B. Strong, and Rodney Livingstone. *The Vocation Lectures: Science As a Vocation, Politics As a Vocation*. Hackett Pub Co, 2004.

Whalen, Charles J. "A Minsky Perspective on the Crisis of 2009." In *Minsky, Crisis and Development*, edited by Jan Toporowski and Daniela Tavasci. Palgrave Macmillan, 2010.

———. "Integrating Schumpeter and Keynes: Hyman Minsky's Theory of Capitalist Development." *Journal of Economic Issues* XXXV, no. 4 (December 2001): 805–823.

Wray, L. Randall. "Minsky's Approach to Employment Policy and Poverty: Employer of Last Resort and the War on Poverty". The Levy Economics Institute, Working Paper 515, September 2007.

Wray, L. Randall, and Dimitri B. Papadimitriou. "What to Do with the Surplus: Fiscal Policy and the Coming Recession". The Levy Economics Institute, Policy Note 6, 1998.

Wray, L. Randall. *Understanding Modern Money: The Key to Full Employment and Price Stability*. Edward Elgar Publishing, 2006.