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Chapters for Modern Money: Preconditions for a Successful Capitalism

Hyman P. Minsky Ph.D.

Chaapter 1.

In the 70'w and 80's of the 20th century the monetary and financial institutions of the Capitalist world underwent great changes. In part these changes were due to the dynamics of capitalism, to the internal logic of a system in which decisions are made under conditions of uncertainty and where recent experience is far different than earlier history and in part it is due to the impact of the electronic revolution in computing and communication.

There is evidence that the pace of change will continue in the last decade of the century. Not only haven't the changes that took place in the 1970's and 1980's been fully exploited and generalized but the Capitalist world is confronted with the challenge of integrating the formerly Soviet bloc of command Socialist economies into a global financial structure.

Capitalism is essentially a financial structure. The most serious task in the transition from the centralized Lenin - Stalin socialism to some form of market capitalism is to build a financial system.

One aspect of the developments in the past decades is the globalization of finance and of financial organizations. There is a need to question the traditinal views that the national central banks have considerable autonomy in determinig the financing conditions within a national economy. Given that innovation occurs in financial usages as well as in products and processes, we need to address the question of whether the continious evolution of the financial system truly matters. Do changes in the financial system affect the performance of the economy in any significant way?

In his obituary of Wesley Clark Mitchell, Joseph Schumpeter noted that students of business cycles can be divided into two camps. One camp holds that the fundamental workings of the market mechanism leads to a an equilibrium - the market economy is an equilibrium seeking and sustaining system. Nevertheless the economy deviates from this equilibrium. The economists who hold that the economy is a powerful equilibrium seeking and sustaining system need to introduce disequilibrium generating systems in order to explain the observations of business cycles. This for example was the problem that Lucas set for himself in a series of articles that were motivated by the need to get around Jack Gurley's jibe at Friedman's monetary theory. Jack Gurley characterized Friedman's theory as holding that "money is a veil, but when the veil flutters the economy stutters.

To other equilibrium theorists the deviations are due to exogenous shocks which may well come from the misbehavior of the central bank and government.

Ths second school that Schumpeter identified holds that because of the way the economy works the system of markets would generate downmside deviations from full employment which could be serious in their duration and amplitude. The fundamental economic theory of these economists leads to business cycles and even allows that essentially incoheerent behavior may characterize a capitalist economy from time to time.

Models which endogenously generate conditiond conducive to intermittent incoherence may achieve this result because of generalized behavior, such as the pattern of interactions among units, or the tendency to intermittent incoherence may be related to some set of attributes of the financial structure and institutions. In both types of models which hold that instability is a normal result and not the result of either shocks or market imperfections the observed rarity of true incoherence has to be attributed to one or both of the structure of institutions and the structure of intervention.

It is worth while to take a historical perspective on this setting of the problem of economic analysis as a problem of two quite different approaches to the analysis of capitalist economies. Capitalism was a failed system in 1933, not just in the United States but throughout the world. This failure was evident in the duratiion of the contraction between 1929 and 1933 and the depth to which the economies of the capitalist world had fallen over the three and a half years of the contraction.

Chapter 2

Payment Systems

The basic banking act is the making of payments at a distance and through time. This is a non trivial activity, although not much attention is paid to the phenomena. The present day is witnessing a revolution in payment tecniques and it is likely that this revolution will change the ways in which "policy" can affect economic activity.

Bnaks as specialists in making payments were a fee for service business.