

1990

## The Globalization of Finance

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The Globalization of Finance: International Capital Shall be  
the Human Race.

Maurice d. Aurissine: Castello di Duino (Trieste)  
August 22 - September 2, 1989

I: This is a conference on Economic Analysis and  
Economic Policy. The fundamental rule for policy  
economic policy analysis and decisions was stated  
more than 2000 years ago by Heracleitus when  
he asserted: "You can never step in the same  
river twice." Unfortunately Economics has been  
"stuck" by the dominant theory of the day to  
assert that markets know best in the <sup>proper</sup> guiding  
need to know  
rule for policy analysis whereas policy analysis ~~is~~  
~~where~~ ~~the~~ ~~intervention~~ ~~for~~ ~~when~~ ~~and~~ ~~what~~ ~~kind~~ ~~of~~ ~~interventions~~:  
policy proposals need to ~~be able to~~ reflect an  
understanding of why and when the past is  
not a good guide to the future!!

Directly related in the Land of Oz after her  
ride in the Tornado she reminds her to her  
fostered dog "Toto, I don't think we are  
in Kansas anymore". She thus understands that  
they were in an <sup>EXOTIC</sup> environment where  
some crown dance, snakes are made of tin,  
lions are by nature cowardly and bankers stand  
revealed as the witch of the West. As the  
1st decade of the 20<sup>th</sup> century approaches we can  
quite clearly see an exotic environment ~~where~~ where  
plumes like their skins and engines explode



In July the high ~~mucky-mucks~~ <sup>mucky-mucks</sup> ~~mucky-mucks~~ 1  
 on times gathered in Paris to commemorate the  
 200<sup>th</sup> anniversary of the French Revolution.  
 Because the free capitalist economies have  
 undoubtedly been successful over the past 40  
 years and because ~~this~~ 1989 was the year  
 that it became clear that the Stalinist  
 ministerial Socialism <sup>put in place in 1929 as</sup> was a false path for  
 socialist development, the Dutch and the  
 successor to Reagan used the occasion to  
 celebrate the "victory" of capitalism over  
 "socialism". However the "victory" that  
 was "successful" was dependent on special  
 government support and with the changing  
 weights of financial <sup>among economies</sup> strength, the continuing  
 invention of new instruments and the  
 globalization of finance the

However the "successful capitalism of  
 1946-89" <sup>begin</sup> ~~occurred~~ when the United States  
 was "all powerful" and depended upon a set  
 of interventions into the operation of the American  
 economy which affected the global economy. U.S.  
 maintained <sup>both</sup> ~~strong~~ a close approximation to  
 full employment from it ever had and an extended  
 period of time and a close approximation to a  
 free trading economy ~~from~~ <sup>from</sup> it has not had

The <sup>in Europe</sup> approximation to full employment was sustained because:

(3)

(1) There  
financial

(2) There  
was a  
good  
social  
security  
network.

(3) One

The Marshall Plan as an  
export of The American New  
Deal - by then intellectually  
indebted to Keynes as seen by  
Hawser. ~~Social Capital~~ The social  
contract was put in place  
Market economy is a legacy  
of the 19th century.

abandoned by expansion, Federal Reserve 'code of last'  
that intervention abated debt deflation

(4) The very size of government relative to G.N.P.  
of the post war era was placed a flow in  
aggregate gross profits is business cash flows.

As long as the U.S. ~~market~~ <sup>prevented</sup> ~~maintained~~ a sustained  
sharp fall in business profits, asset prices, ~~employment~~  
employment and as long as the United States  
market was "open" then a protective shield  
existed for the economies that were able to  
take advantage of this situation. Initially the  
great beneficiaries were Western <sup>Europe</sup> - mainly northern  
Europe but Western Europe has included Italy and  
Japan. A second group of export platforms  
have taken advantage of United States expansion  
since the early 1980s.



(3)

The <sup>in turn</sup> ~~idea~~ approximation to full employment was sustained because:

(1) There was a "limited condition" of financial robustness.

(2) The 'New Deal' reforms assumed that there was a high flow to consumption: a flow which ~~grew~~ rose quite rapidly as the social security and retirement benefits systems matured in the ~~late~~ 1960's.

(3) One financial robustness had been abridged by expansion, Federal Reserve 'code of last' that intervention abated debt depletion.

(4) The very size of government relative to G.N.P. of the post war era was placed a flow on aggregate gross profits is business ~~was~~ cash flows.

As long as the U.S. ~~was~~ <sup>prevented</sup> ~~maintained~~ a sustained shock fall in business profits, asset prices, employment and as long as the United States market was "open" a protective shield existed for the economies that were able to take advantage of this situation. Initially the great beneficiaries were Western <sup>Europe</sup> - mainly northern Europe but Western Europe has included Italy and Japan. A second group of export platforms have taken advantage of United States expansion since the early 1980s.

Arms and Money in Europe and Asia,  
a war in Korea, a war in Vietnam and a  
deficit ~~and~~<sup>+</sup> consumption driven  
expansion in the 1980's ended the financial  
dominance of the United States. From being the  
"greatest" capitalist economy by a wide margin,  
the United States ~~is~~<sup>today</sup> today no bigger and quite likely  
smaller than the Common Market and with rising  
measurement difficulties is being challenged as  
a one financing power by Japan. It is  
true that the United States has run enormous  
trade deficits ~~since~~ over the past decade and  
that the payments in account of financial  
and physical assets abroad is approaching  
if it is not exceeding the foreign income  
earned by the United States. It is questionable  
whether the United States maintaining its  
income & employment by massive deficits and  
global financial integration will be able to do  
~~so~~ <sup>the free capitalist economy</sup> prosper in the future & ~~the~~  
~~main~~ ~~problem~~ ~~is~~

The ~~main~~<sup>global</sup> job of containing and  
constraining debt deflections and depression  
<sup>now</sup> may likely be beyond the capacity of the  
United States: ~~the~~ the problem is not only  
of cooperation but of understanding what needs to  
be done



In particular ~~Reagan's~~ Reagan's succession  
were celebrating the ~~apparent~~ expansion that began  
in July 1982 and was still <sup>going on</sup> ~~continuing~~ in July 1985.  
But a similar and not complete chronicle of  
these years includes in the United States

The Penn-Square and Mexican financial failure,  
mid year 1982 which triggered ① Massive Federal Reserve  
Intervention and the abandonment of ~~Reagan~~  
Volcker's past strict monetarism: Deficits and Central Bank  
intervention increased the deficits  
② The collapse of the

Continental Illinois Bank in 1984 and a resulting  
massive refinancing and Federal Reserve Intervention

③ The stock market  
crash of 1987 which triggered massive Federal Reserve

and significant intervention (4) The continuing crisis of  
Latin American Debt + the need to "obviate" the effect of the  
boom in 1980-85 (5) The wholesale underwriting

of the 1980s which triggered first a \$5 billion and now  
a \$80 billion injection / Summit agreement with a  
promise that there is more where that  
\$5 billion's come from.

That is the success enjoyed by the <sup>central bank</sup> ~~monetary~~  
in the ~~next years~~ 1980's restored and in the  
ability of the Federal Reserve to offset and control  
a debt depletion. The massive interventions include  
both a refinancing of the particular units at risk and  
a broad infusion of the ability to cope with  
banks.