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## Some Political and Economic Arithmetic

Hyman P. Minsky Ph.D.

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## **Some Simple Political and Economic Arithmetic**

**Hyman P Minsky**

Although it was not inevitable, we have just experienced a massive financial shake out. This need not set off a collapse of financial institutions or have the dire consequences for output, employment and living standards such as occurred in 1929-33. Government intervention can contain the damage. However for the interventions to be prompt and apt the intervenors need to understand the flaws of capitalism which make great depressions possible and how government can thwart the tendency for free markets to generate chaos.

American political and economic history in the 20<sup>th</sup> century can be broken into distinct thirds: a Republican third from 1901 to 1933, a Democratic third from 1933 to 1969, and another Republican third from 1969 to now. From 1901 to 1933 the economy was cyclical: recessions, depressions and financial shake outs occurred frequently. This era ended with the Great Collapse of the capitalist economies between 1929 and 1933.

By March of 1933 the laissez-faire capitalism of small non-interventionist government and essentially unregulated business was a failure.

Roosevelt inherited a failed capitalism in 1933. The middle third of the century began with the country in the pit of the great collapse. Over the next 36 years the country recovered from the depression, fought and won a great war, aided the recovery of both friends and foes in that war, and ended with a reign of unprecedented widely shared prosperity. 1933-69 was arguably the most successful era that American capitalism ever enjoyed. The interventionist and regulated big government capitalism of 1969 was not only different from the capitalism of 1933, it was far better.

In 1969 Johnson handed over a successful capitalism to Nixon. Since then the economy has fallen back from the great success it had reached. Inflation, unemployment, unprecedented high interest rates, slow growth, bank failures, and the transformation of the United States from a massive international creditor to the world's largest debtor state indicate how the economy has deteriorated. This era has seen the lowering of the standard of life of industrial workers, farmers and those dependent on the social safety net.

There is a moral, a cautionary tale, to this economic and political history of the 20<sup>th</sup> century: A protracted period of conservative Republican rule is dangerous to the health of the economy and leads to a failed capitalism, whereas a protracted period of liberal Democratic rule creates and sustains the conditions for a successful

capitalism. This proposition, drawn from a reading of history, has a basis in economic theory.

Conservative Republicanism relies heavily on the proposition that the market knows best. This is a false proposition, for the interacting product, labor and financial markets of modern capitalism are intermittently highly unstable both on the up side to inflation and the down side to depression. What happened between 1929 and 1933 is a normal, though not an every year, event of a modern capitalist economy.

We just lived through an era of speculation. It is evident that successful speculation induced further speculation. Even as great fortunes were made on Wall Street, our economic structure and infrastructure deteriorated. The economic structure depends upon enterprise. Speculation is an not only an enemy of enterprise, it can set the stage for a serious recession.

Liberal Democrats are suspicious of unconstrained claims that are made for the market. They recognize that the outcomes from unregulated markets are not only likely to be unfair but are possibly disastrous. They are mainly concerned about creating conditions where income from work is available for all. When government is directed to promoting enterprise, then its regulations and interventions curb speculation and help induce employment.

Liberal Democrats recognize that successful capitalism needs the help of government to create the resources upon

which progress depends, to assure that the benefits of progress are spread widely, and to contain the forces within the market economy that lead to depressions.

The lesson from experience is clear. Conservative Republicans are soft Pollyannas with regard to capitalism, and liberal Democrats are hard nosed realists who understand the weaknesses of capitalism even as they recognize, to paraphrase Churchill, that capitalism is the worst of all economic orders until you begin to think about the alternatives.

It is because liberal Democrats have a better understanding of our economy that protracted periods of Republican ascendancy are bad and protracted periods of Democratic ascendancy are good for the economy and therefore for the country.

Economics Department,  
Washington University,  
St Louis, Mo. 63130

Hyman. P. Minsky is professor of economics at Washington UNiversity in St. Louis, Missouri. He is the author of *Stabilizing an Unstable Economy*, Yale University Press 1986.