Bard College
Bard Digital Commons

Hyman P. Minsky Archive
Levy Economics Institute of Bard College

7-1985

Economic ‘Recovery’ Likely to Fizzle

Hyman P. Minsky Ph.D.

Follow this and additional works at: https://digitalcommons.bard.edu/hm_archive

Part of the Macroeconomics Commons

Recommended Citation
Minsky, Hyman P. Ph.D., "Economic ‘Recovery’ Likely to Fizzle" (1985). *Hyman P. Minsky Archive*. 408.
https://digitalcommons.bard.edu/hm_archive/408

This Open Access is brought to you for free and open access by the Levy Economics Institute of Bard College at Bard Digital Commons. It has been accepted for inclusion in Hyman P. Minsky Archive by an authorized administrator of Bard Digital Commons. For more information, please contact digitalcommons@bard.edu.

THE ECONOMY

from the not-so ivory tower

By Hyman P. Minsky

The Reagan-Volcker deep and long recession of 1981-82 ended just two and a half years ago. Following a recession of such severity history indicates the expansion should last four to four and a half years. However it is evident that this recovery is showing signs of old age. The Reagan recovery, of which so much was made in the campaign of 1984, is likely to fizzle out within the next year.

The Ford-Carter expansion of 1975-79, which followed the deep and long recession of 1974-75, was superior in employment, growth and productivity to the current expansion. The weakness that is now so evident in manufacturing and agriculture was absent in the Ford-Carter expansion. The American economy was a strong giant in 1975-79, it now seems to be a paper tiger.

Economic "recovery" likely to fizzle

The Reagan years are not a complete wash out for inflation has been brought down, although it is still higher than in the 1960s. Inflation is lower in 1985 than in 1980-81 because the strong dollar has brought a flood of low price imports and because unemployment has weakened unions and brought the increases in money wages down. In recent years, the purchasing power of many workers has fallen. We are seeing the arrival of *conditions conducive to the reintroduction of the sweat shop.*

Reagan came to Washington trumpeting new policies—monetarism and supply-side economics—what were to *usher in an era of prosperity for all. Inflation was to be squeezed out painlessly* by announcing and executing monetarist constraints on the money supply and a tax reduction was to set off a surge of growth so that lower tax schedules would lead to higher tax revenues.

Reagan's first term saw a serious recession and an expansion powered by massive government deficits. Reagan talked a supply-side and monetarist game but he practiced conservative Keynesianism. Conservative Keynesianism is the use of a mix of monetary and fiscal policies to stabilize aggregate income and to increase the share of property income in total income. Full employment is not the object of this Keynesianism; the aim is to increase the retained income of the already very affluent.

We are now in what many economists call a growth recession—when the expansion of demand and output is well below the norm. Unemployment is stuck at 7.3 percent, manufacturing capacity utilization is at 80 percent, vacancy rates of commercial real estate is approaching 20 percent in many places, and agriculture seems like a "basket case." Furthermore, the profits that are generated by government deficits are either shipped abroad by the trade deficit or concentrated in defense industries.

The growth recession can very well stall into a mild true recession in which demand and output actually fall. The question is whether a mild true recession can be contained, or whether it will escalate into something more serious.

The big success in the Reagan years has been slowing down inflation. Such relative disinflation is viewed as a desirable development, and in many ways it is, but in a heavily indebted world slowing inflation can mean that debt burdens become greater than anticipated.

In our heavily indebted and fragile financial structure, a growth or mild true recession may trigger an epidemic of business and financial institution failures. Oil related assets and commercial real estate prices are especially vulnerable.

Oil prices are coming down. At one time, it was estimated that $24 a barrel would be a stopping place for oil in its downward movement. The combination of the breakdown of OPEC, oil discoveries, conservation, and a recession is likely to force oil prices even lower.

It is well known that some of the giant banks have "hidden losses" from Latin American credits. Some of these banks are also heavily involved in financing oil related credits and commercial real estate. A substantial fall in oil prices will increase vacancy rates and decrease construction activity in several Texas cities. A realistic appraisal of values in the light of a locally depressed market for commercial property as well as the shortfall of cash receipts because of vacancies can lead to serious losses by many banks and other financial institutions.

Jumbo deposits of foreign banks that participate in the Euro-and Asia-dollar markets make up a substantial part of the funding of the largest U.S. banks. It was a flight of such deposits that triggered the demise of Continental Illinois Bank last year. Next time such a flight may not be from one bank but from a set of banks that offshore depositors see as being related.

Such a run on a number of U.S. banks that are deemed to be heavily involved in oil and commercial property will take place in the context of thrift institutions that are skating on thin ice and an epidemic of failures of small agricultural banks. When this happens, a "failure of confidence" in the power of deposit insurance and the Federal Reserve to cope with the multi-dimensional crisis can occur.

A failure of confidence in the power of deposit insurance and the Federal Reserve to cope with a crisis will place the World's financial structure in a new environment. Given the massive volume of layered private and public debt, the mischief that can take place as asset holders try to protect the value of their assets is virtually unbounded.

Historically, a complex downside interaction between asset values and income and employment has been a major characteristic of deep depressions. Since World War II these interactions have been contained by a combination of Federal Reserve interventions and the deficits of big government. Because of the increased complexity and weight of the debt structure, it is proper to wonder whether the pain next time can be contained as in 1974-75 and 1981-82 or if an even deeper and longer recession is in the offing.

Reagan's campaign announced that America has come back. The question in mid-year 1985 is "For how long?"

Hyman P. Minsky *is a professor of economics at Washington University, St. Louis, and a regular SJR columnist.*

DEADLINES

■ **INVESTIGATIVE REPORTERS AND EDITORS** and the **Agricultural Editor's** Office at the University of Missouri-Columbia, are sponsoring a conference to help reporters and editors report on these topics. The third Investigative Reporting in Agriculture Conference will be Aug. 23–24, 1985, at the Hilton Inn in Columbia, Mo. For more information call 314/882-8237.

■ **KPLR—TV, CHANNEL 11,** will broadcast, in stereo, "Live Aid," the first global rock concert to benefit the African relief fund, July 13 from 6 a.m. to 5 p.m. The program features 50 performers, including Bob Dylan, Mick Jagger, The Who, U2, Elvis Costello, David Bowie, and others. For more information contact KPLR-TV promotion 454-6347.

THE RUSSIAN IS COMING! THE RUSSIAN IS COMING!

See Mikhail Baryshnikov & Company. Wed., July 24. 8 PM at Kiel.
For tickets-or other information on our '85-'86 season-call 968-3770.
Or stop by any Ticketmaster outlet.

Dance St. Louis

Chastain's
11692 Manchester Road
Des Peres, Mo. 63131
OFFERS

DAY CARE FOR THE ELDERLY

Chastain's Preferred Day Care for the elderly is a medical and social program which is designed to meet the specific needs of each guest and family.

WE PROVIDE THESE SERVICES. . .

- Activities-Recreational, Exercise, Crafts
- Therapy-Physical, Occupational, Speech
- Special Diets
- Barber and Beauty Shop

This program is open to persons needing supervision, nursing, and protective care (including most Alzheimers).

Monday thru Friday ● 7 am-5:30 pm
$15 Per Day - Includes Noon Meal

Respite short-term admission is available for weekends, vacation periods, or other extended periods at regular inpatient rates.

— SINCE 1933 —
BUILDING A CENTURY OF TRUST

FOR MORE INFORMATION PLEASE CONTACT:
J. MICHAEL GUNN
Administrator
(314) 966-3350