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## The Globalization of Finance

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

Mauro d. Aurisimo: 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 Herodotus 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>price</sup> guiding

need to know  
rule for policy analysts whereas policy analysis is  
~~where~~ <sup>where</sup> interventions are when and what kind of interventions:  
policy proposals need to ~~be made 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 Tin Wood she reminds her to be  
fascinated by "Toto, I don't think we are  
in Kansas anymore". She has understandings that  
they were in an <sup>EXOTIC</sup> environment where  
some crown dance, wishes are made of tin,  
lewis 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 ~~major~~<sup>mukky-mucks</sup> ~~of~~ ~~one~~ times gathered in Paris to commemorate the 200<sup>th</sup> anniversary of the French Revolution. Because the core 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, then Thatcher and the successor to Reagan used the occasion to celebrate the "victory" of capitalism over <sup>the</sup> "socialism". However the "success" that was "successful" was dependent on special <sup>the</sup> government support and with the changing <sup>global</sup> ~~weight~~ of financial <sup>global</sup> ~~strength~~, the continuing <sup>global</sup> ~~importance~~ 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> ~~both~~ a close approximation to full employment from it ever had over an extended period of time and a close approximation to a free trading economy ~~from~~ <sup>from</sup> at least at least

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

- (1) There
- financial
- (2) there
- was a
- good
- social
- insurance
- (3) One

The Marshall Plan as an export of The American New Deal - by men intellectually indebted to Keynes as seen by Hansen. ~~Social Capital~~ The social market economy was put in place as a legacy of the 1930s

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 on aggregate gross profits i.e. business cash flows.

As long as the U.S. ~~market~~ <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



The <sup>in the U.S.</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 ~~was~~ rose quite rapidly as the social security and retirement benefits systems introduced in the ~~late~~ 1960's.
- ③ One financial robustness had been abraded by expansion, Federal Reserve "endeavor to 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 i.e. business ~~was~~ cash flows.

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Americas and Mexico 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 <sup>today</sup> is today no bigger and quarter likely  
 smaller than the Common Market and with rising  
 measurement difficulties is being challenged as  
 a true financing power by Japan. It is  
 true that the United States has run enormous  
 trade deficits ~~in~~ over the past decade and  
 that the payments 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 ~~and~~ <sup>the free capitalist economies</sup> prosper in the future & ~~that~~  
~~the~~ ~~world~~ ~~is~~ ~~in~~ ~~the~~ ~~future~~ ~~is~~ ~~in~~ ~~the~~ ~~future~~

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



In particular ~~Partners~~ Reagan's successors were celebrating the ~~apparent~~ expansion that began in July 1982 and was still <sup>going on</sup> continuing in July 1989. But a similar and not complete chronicle of these years includes in the United States

The Penn-Square and Mexican financial failures, mid year 1982 which triggered ① Massive Federal Reserve Intervention and the abandonment of ~~Reagan~~ Volcker's practices monetarism: Deficits and Central Bank intervention increased the ~~apparent~~

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 "obey" the effort to be beats in 1981-85

⑤ The wholesale bankruptcy of Thrifts which triggered first a \$5 billion and then a \$20 billion injection, Supplement monetarism: with a promise that there is more where that 55 billions come from.

That is the success enjoyed by the <sup>wholesale</sup> ~~monetary~~ in the ~~next~~ years 1980's restored not in the ability of the Federal Reserve to effect and control a debt deflation. The massive interventions include both a refinancing of the particular units at risk and a broad infusion of the ability to accept assets into banks.