SOME SIMPLE POLITICAL AND ECONOMIC ARITHMETIC

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In 1988 we will elect a President. Barring accidents he will serve two terms and will be in office until January 1997, well nigh the end of the 20th century.

It is not inevitable, but it is quite likely, that we will experience another financial shake-out such as 1929-33 before the end of the century. This however need not have the dire consequences for output, employment and living standards that the financial collapse of 1929-33 had, because apt government intervention can contain the damage. However, for such intervention to be prompt and apt the interveners need to understand the flaws of capitalism and to accept the need for government to contain the effects of the flaws, to thwart the natural tendency for free markets to generate chaos from time to time.

The political and economic history of the United States in the 20th century can be broken into "thirds" that have distinct political and economic characters: a first Republican "third" from 1901 to 1933; a Democratic "third" from 1933 to 1969; and a second Republican "third" from 1969 to now. This third "third" is still incomplete and there are still three Presidential elections before the century is closed.

From 1901 to 1933, when we had 24 years of Republican Presidents (Mckinley, Teddy Roosevelt, Taft, Harding, Coolidge, and Hoover) and only 8 years of Democratic Presidents (Woodrow Wilson), the economy was cyclical: recessions, depressions and crises occurred frequently. Although aggregate
numbers indicate that output per person grew, the benefits of progress did not trickle down to the poor.

This Republican era ended with the Great Collapse of the capitalist economies between 1929 and 1933. In March of 1933, when the first third of this century ended, it was clear that the laissez-faire capitalism of small non-interventionist government and essentially unregulated business that the Republicans stood had failed.

The middle third of the century, which lasted for 36 years, began with the inauguration of Franklin Roosevelt in March of 1933. For 28 years of this middle "third" the President was a liberal Democrat: 20 years of Roosevelt and Truman and 8 of Kennedy and Johnson. The Republicans held the White House only during Eisenhower's two terms: Eisenhower was a moderate.

This 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. These years were successful years for the United States and for the economy. Indeed, it can be argued that this period was the most successful era that American capitalism ever enjoyed.

Roosevelt inherited a failed capitalism in 1933. His successor Johnson handed over a successful capitalism to Nixon in 1969. The interventionist and regulated big government capitalism of 1969 was not only different from the capitalism of 1933, it was far better.

In January 1989, when Reagan will leave office, 20 of the 32 years of the last "third" of the 20th century will have passed. These years have been marked by 16 years of conservative Republican and only four years of
Democratic Presidents. Although the only Democrat, Carter, looks good when compared to the Republicans who preceded and followed him, he was by a good measure the most conservative and the least successful Democratic President of the 20th century.

During the current era of Republican dominance the economy has fallen back from the great success it reached in the prior era of Democratic dominance. 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 since 1969 when Nixon was inaugurated. This current era has seen the lowering of the standard of life of industrial workers, farmers and those dependent on what the Republicans call the safety net.

The second conservative Republican era of this century has been characterized by a deteriorated economic performance and open fears that another economic and financial debacle, like that of 1929-1933, may happen. As an example, we can cite the condition of deposit insurance. In 1969, at the end of the Democratic era, the viability and integrity of deposit insurance was beyond question. Today, deposit insurance is bankrupt. The failures of multibillion dollar savings institutions have depleted insurance reserves. Deposit insurance is no longer "insurance"; it is now a government guarantee and taxpayers will have to bail out depositors.

There is a moral, a cautionary tale, to this economic and political history of the 20th 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 is needed
to create and sustain 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 markets of a financially sophisticated 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 are now living through a burst of speculation and it is evident that successful speculation induced further speculation. Even as great fortunes are made on Wall Street, the economic structure and infrastructure of the United States is deteriorating. The economic structure depends upon enterprise. Speculation, such as has dominated since the early 1980's, is not an enemy of enterprise. It is likely to set the stage for a serious "recession".

In contrast, liberal Democrats are suspicious of unconstrained claims that are made for the market. Whether they have come to this position by intuition, experience or analysis, they recognize that the outcomes from unregulated markets are not only likely to be unfair but are possibly disastrous. They are more concerned with creating conditions where income from work is available for all, whereas Republicans emphasize the profits that bankers and owners of securities earn. 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. If the third "third" of this century ends not with Republican but with liberal Democrats in the Presidency we can turn off of the road to disaster on which the Nixon, Carter and now the Reagan years have steered the economy.

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 ascendency are bad and protracted periods of Democratic ascendency are good for the economy and therefore for the country.

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