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Capitalism was a failure in March of 1933. The financial system was bankrupt, industry was in disarray, agriculture was in revolt, and for many, gainful employment was a distant memory. Poverty was rife: one third of the nation was ill fed, ill housed and ill clothed.

Aspects of the current situation resonate with the Hoover years. Parallels can be drawn with the 1930's but the situation is not as dire, nor is American capitalism as discredited, as in March of 1933. The economy is floundering, but it is not a disaster.

The reforms of President Franklin Roosevelt's first term aimed to create an institutional structure for successful capitalism. In large measure this was done. Success followed the substitution of an interventionist, regulated and big government capitalism for the 1920's laissez faire and small government economy.

Roosevelt's clarion call "The only thing we have to fear is fear itself" expressed a will to create a new capitalism which would replace chaos with order, create and sustain an approximation to full employment, and set the country on a road which did not lead to a quick repeat of

the 1929-33 debacle. The New Deal reformed finance, increased resource utilization, fostered resource creation and placed barriers in the way of downward price flexibility.

The financial reforms eliminated the gold standard, insured deposits, compartmentalized banking, provided for closer regulation and inaugurated transparency in corporate finance and financial markets. Direct employment by The Civilian Conservation Corps, the National Youth Administration and the Works Progress Administration promoted resource utilization. Resource creation took many forms: public works, rural electrification, TVA, other river projects, reforestation and public housing. Barriers against a free fall in the price level included agriculture price supports, minimum wages and spreading trade unionism.

In the 1950's and 1960's a close approximation to full employment was achieved and sustained. By the 1960's it appeared as if the major battles against poverty had been won: John Kenneth Galbraith's The Affluent Society of 1958 celebrated the victory. President Lyndon Johnson's war on poverty was a mop up operation.

Stresses are now apparent in American capitalism. Some of the institutions that contributed to the success of the 1950's and 1960's, such as strong and responsible trade

unions and highly localized and narrowly focused savings and loan associations, have diminished in importance. The compartmentalized financial system, that was put in place in the 1930's, fostered enterprise and investment. Institutional evolution, such as the rise of pension funds, legislated changes, such as broadening the asset base of savings and loans, and policy errors, such as monetarism, transformed the financial system into an abettor of speculation.

Massive infusions of government money into the financial system together with the enormous government deficits which sustain profits are all that prevent the financial disasters of the 1930's from being replicated in the 1990's. Poverty survived Johnson's war and is now winning battles. The era of successful capitalism may well be coming to an end.

Capitalism is not frozen in stone: it takes many forms. As one form breaks down another develops, perhaps in the womb of the old. A new model capitalism needs to be developed if we are to again perform as well as in the 1950's and 1960's.

Today we hear many echoes of the 1930's. The official economists again intone "Prosperity is just around the corner". Gimmicks, such as the "middle class tax cut", are

offered as cures for the failed economy. Once again others - this time the Japanese - are held responsible for our ills. We tolerate an excruciating waste of humans. Yet our leadership - Republican and Democrat alike - seems not to comprehend what is happening.

A successful economy fully uses and creates resources. It achieves and sustains a close approximation to full employment. Its ability to produce grows: when we enjoyed a close approximation to full employment a vigorous creation of resources, both physical capital and an educated population, took place.

The lesson from our history is that successful capitalism requires the Federal government to be the guarantor of full employment and a partner with private enterprise in the creation of resources.

A 1990's new model of capitalism needs to guarantee access to income from useful work for all. We should not think of putting an exact replica of the 1930's CCC, WPA and NYA in place: these 1930's mechanisms can only serve as prototypes. Greater Federal government involvement in the financing of infrastructure investment and the support of research universities and institutions is necessary. A new Reconstruction Finance Corporation is needed to assure that adequate financing is available for viable projects.

In 1933 Franklin Roosevelt recognized that the disaster of 1929-33 was not due to a shortage of resources but to the failure of will and the blinders which wedded policy to laissez faire. The requirements for creating a successful capitalism in the 1990's are the same as in the 1930's. We need to understand that we are not resource constrained. We are will constrained. We need the will to throw off the conservative ideology that prevents us from reaching our potential.

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