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Pollyannas of Capitalism

By Hyman P. Minsky

ST. LOUIS — Although the huge financial shakeout we have just experienced was not inevitable, it was to some extent predictable. As 20th century history shows, a period of conservative Republican dominance leads to a failed capitalism, while a period of liberal Democratic dominance creates and sustains the conditions for successful capitalism.

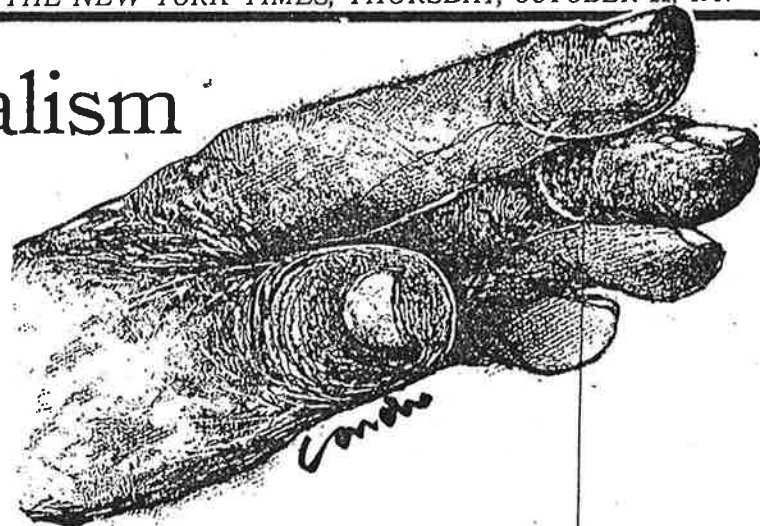
This is not to say that this stock market crash will lead to the same collapse of financial institutions or drastic drop-off in output, employment and living standards as the crash of 1929. Government intervention can contain the damage. How-

Hyman P. Minsky, professor of economics at Washington University, is author of a book about stabilizing the economy.

ever, for the interventions to work the intervenors need to understand the flaws of capitalism that make great depressions possible and how Government can thwart the tendency for free markets to generate chaos.

American political and economic history in the 20th 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 shakeouts occurred frequently. This era ended with the Great Depression — the failure of laissez-faire capitalism.

The period from 1946 to 1969 was arguably the most successful era in American capitalism. The interventionist and regulated big government capitalism of 1969 was not only different from the capitalism of 1933, it was far better.



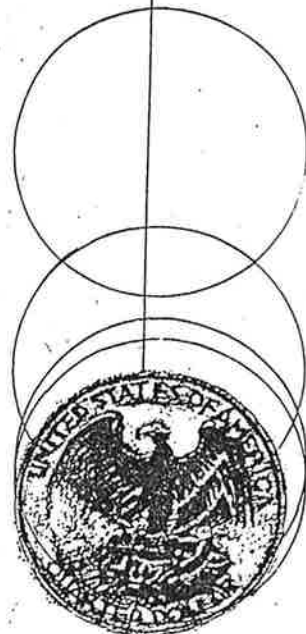
Since 1969, when Lyndon B. Johnson handed over a successful capitalism to President Richard M. Nixon, the economy has fallen back. Inflation, unemployment, high interest rates, slow growth, bank failures and the transformation of the United States from an international creditor to the world's largest debtor all 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.

The trouble with conservative Republicanism is that it relies heavily on the proposition that the market knows best. This is false, for the interacting product, labor and financial markets of modern capitalism are intermittently highly unstable and vulnerable both to inflation and depression. What happened between 1929 and 1933 is a normal, though not commonplace, event of a modern capitalist economy.

We have been living through an era of speculation, reminiscent of the 1920's, during which successful speculation has induced further speculation. Witness the way companies have been "put into play" by takeover artists.

But even as great fortunes have been made on Wall Street, our economic structure and infrastructure — which depend upon real investment in productive capacity — have been deteriorating. The economic structure depends upon investment in enterprise, as against paper entrepreneurialism. Speculation is not only an enemy of enterprise but also by piling on debt it can set the stage for serious recession.

Liberal Democrats are suspicious of the virtues attributed to unconstrained markets. They recognize that unregulated markets are likely



to distribute income unfairly and are possibly dangerous to the nation's economic and ecological health.

Liberal Democrats are mainly concerned about creating conditions where income from work is available to all. When Government is directed to promoting enterprise, then its regulations and interventions curb speculation and help induce employment. 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 market forces that lead to depression.

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. □

The Glitz Is Gone

By Robert B. Reich

CAMBRIDGE, Mass. — The binge is over. It couldn't go on forever — the quick fortunes, the midnight raids and computer-driven program trades, the junk bonds, poison pills, leveraged buyouts, options — all the glitz and glamour, the danger and thrill. It's over.

Wall Street had supplanted Las Vegas, Atlantic City, Monte Carlo and Disneyland as the place where dreams are made, where castles appear in the clouds. It was Pinocchio's Pleasure Island, where children (and the adults whose bodies they inhabited) could do and have whatever they wanted, whenever they wanted it.

The rest of us pretended not to notice. Oh, yes, we moralized over insider trading and we organized ethics courses at our business schools. But for the most part we let the kids play, telling ourselves that they must be doing something important. How else to explain the millions they earned, and the steady march of the best of our students to their sides?

Financial experts assured us that these antics were good for America because they helped restructure the economy. The purpose of the corporation, the pundits explained, was to maximize share values. Thus, Wall Street's paper shenanigans, pushing share prices ever higher, were also making America more competitive, they said.

Meanwhile, the party went on. The noise grew louder, the games more raucous. Even Pinocchio noticed that some of the more exuberant children were sprouting long ears and tails.

But now it's morning and the binge seems to be over. Many have hangovers. Many have worse. The jackasses are clearly identifiable. And the rest of us, who pretended not to notice, are left with the job of cleaning up the mess.

Robert B. Reich teaches at Harvard University's John F. Kennedy School of Government.

Stop Do-It-Yourself Peacekeeping

By Lincoln P. Bloomfield

forts toward peacekeeping and peacemaking. In the 1960's and 70's,

high for both superpowers. Simple logic commends a new superpower