The Crash of '87 - What Does It Mean?

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To economic theory the crash of 1987 is one more piece of evidence that modern capitalist economies with complex, sophisticated and ever evolving financial structures are inherently and endogenously unstable. It is important because over the years since World War II economic doctrines set up to yield the conclusion that decentralized markets yield either a static or a growth equilibrium have dominated the discipline. The events of October 1987 are to our perception of the economy and to economic theory like the little boy's crying out "He is naked" is to the emperor's clothes and the emperor's tailors.

Whereas the events of October 19 and 20 cannot be explained as normal functioning though albeit not everyday events by the neoclassical synthesis it is a theorem of the Post Keynesian theory that the emergence of conditions conducive to financial instability is a normal event that is due to the way profit seeking bankers, business men and portfolio managers react to profit opportunities. In a world characterized by uncertainty in the sense of Keynes, Knight and De Finiti successful functioning of a capitalist
The power of big government to stabilize profits, and of a trade deficit to stabilize the profits of surplus countries. The importance of the Kalecki focus on profits.
During the past decades economic theory has unlearned the lessons of the Keynesian revolution: If Keynesian theory was still part of the curriculum then the events of October would not have been surprising.