Summary of Report from Hyman Minsky:

A TIME BOMB TO SUBVERT AMERICAN PROSPERITY

The stability of the American monetary and banking systems and therefore the entire economy depend on the strength of a dual foundation: the ability of the Federal Reserve and commercial banks to monetize the federal debt and the integrity of deposit insurance. These foundations would sooner or later be destroyed by a balanced budget amendment.

If such an amendment had been in effect in the 1980s, the federal government's rescue of its deposit insurance agencies and therefore of the nation's financial system would have been impossible. The ability of the federal government to borrow to effect this rescue enabled what would have been a depression to be only a recession, the one that began in 1990.

Speculation has become rampant time and again ever since modern capitalism began to develop. It is rooted in the acquisitive nature of human beings that usually is sufficiently confined to productive channels. But every so often excessive speculation overflows these channels. While a few people may exist who claim that we will prevent excessive speculation in the future, they can give us no assurance. History teaches that the circumstances leading to unbridled speculation will recur. A balanced budget amendment then would be a time bomb that would devastate our banking system when the bubble burst.

In the meantime, a balanced budget amendment would make federal deposit insurance worthless. Financial markets would not take this guarantee seriously.

While the fuse on the time bomb was leading to a financial explosion, the balanced budget amendment would also act as a stone slowly grinding down the foundation of our money. Money is issued against United States government debt by the Federal Reserve and commercial banks. Because our economy is intensely financial, it can have too little as well as too much government debt.

A balanced budget amendment would prevent the debt from growing at all. The debt is now close to 70% of gross domestic product. This percentage, based on recent and projected budgets will decline. The ability of the banking system to create needed money would not be impaired if the U.S. government debt returned to 33% of GDP, where it was in 1981.

But then the debt would have to grow apace with GDP to enable the Federal Reserve and the banks to provide the money that the growing economy would require. At some point the Federal Reserve, which creates bank reserves by buying Treasury securities, would be stymied by the relative dearth of federal debt. The failure of this debt to grow with the economy would inexorably wear away the ability of the banking system to do its job and lead to an economic disruption reminiscent of what happened in the years 1929-1933.

A balanced budget amendment would force radical changes in the monetary system and those institutions such as the Social Security System which are owners of federal debt. Such changes would be critically disruptive -- at best.