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February 12, 1992

Board of Governors  
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*Executive Director*  
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Dear Martha:

Here is my try at a cut piece. Mehrling will be here this afternoon. I'll try calling after his seminar.

Best

*Hy*  
HY

Board of Advisors  
Philip Caldwell  
Frank P. Doyle  
Charles P. Kindleberger  
Lord Harold Lever  
Hyman Minsky  
Franco Modigliani  
Senator Daniel  
Patrick Moynihan  
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Eugene Rotberg  
James Tobin



March 4, 1933 / March 4, 1992

Capitalism was a failed economic system 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 housed, ill fed and ill clothed.

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

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

In the 1950's and 60's a close approximation to full employment was achieved and sustained. By the mid 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. Johnson's war on poverty was a mop up operation.

Economic stresses are now apparent in American capitalism. Some of the institutions that were critical for the success of the 1950's and 60's, such as strong and responsible trade unions and highly localized and narrowly

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as many think it is today  
March 4, 1933 / March 4, 1992

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Aspects of the current sit. resonate w/ the Hoover Y.S.

During Roosevelt's first term a wave of reforms concentrated on creating a successful capitalism. In a large measure this was done. In the 1950's and 60's a close approximation to full employment was achieved and sustained. By the mid 1960's it appeared as if the major battles against poverty had been won: Johnson's war on poverty was a mop up operation.

The capitalism that succeeded was far different from the capitalism that had failed. Success followed the replacement of the laissez faire and small government economy of the 1920's by an interventionist, regulated and big government capitalism.

Economic stresses are now apparent in American capitalism. Strong and responsible trade unions and highly localized and narrowly focused Savings and Loan Associations were features of the economy during its most successful era. They have diminished in importance. A compartmentalized financial system was put in place in the 1930's which fostered enterprise and investment. Institutional evolution, such as the rise of pension funds, legislated changes, such as broadening the asset base for Savings and

parallels can be drawn to our present economic situation, but we are not in crisis like America in 1933

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P. 02

*as many think it is today*

March 4, 1933 / March 4, 1992

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focused Savings and Loan Associations, have been ~~much~~ diminished in importance. A compartmentalized financial system was put in place in the 1930's which fostered enterprise and investment. Institutional evolution, such as the rise of pension funds, legislated changes, such as broadening the asset base for Savings and Loans, and policy errors, such as monetarism, transformed the financial system into an ~~abeter~~ <sup>hand-aside</sup> of speculation.

Massive infusions of government money into the financial system, <sup>combined</sup> together with ~~the sustaining impact~~ of the enormous government deficits <sup>that sustain the system</sup> are all that prevents the ~~financial~~ disasters of the 1930's from being replicated in the 1990's. Poverty survived <sup>the war</sup> ~~the war~~ on it and is now winning battles. Ignorance, complacency and venality are threatening to end the era of successful capitalism.

During the reign of successful capitalism, mainstream economics lost touch with reality. It was reduced to the mouthing of vacuous phrases such as "The market knows best", "Money matters" and "There is no such thing as a free lunch". When the economic theory that <sup>inspires economic</sup> policy becomes irrelevant, then the economy is on "The Road to Disaster". <sup>Just Bad Luck and Long Country</sup>

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

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 ~~financial~~ <sup>usage</sup> usages, increased resource utilization, fostered resource creation and placed barriers in the way of downward price flexibility.

Financial reforms ~~in the 1930's~~, eliminated the gold standard, insured deposits, compartmentalized banking, provided for closer regulation of banks, financial institutions, and financial markets 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 harnessing projects, reforestation and public housing. Barriers against a free fall in the price level included agriculture price supports, minimum wages and government support of trade unions.

As in the 1930's the official economists ~~now~~ intone "Prosperity is just around the corner". Once again gimmicks, such as the "middle class tax cut", are offered as cures for the failure of the economy. Once again others -

this time the Japanese - are held responsible for our ills. Once again an excruciating waste of humans is tolerated.

A successful economy fully uses ~~its resources~~ and creates resources. It achieves and sustains a close approximation to full employment. Its ability to produce grows. ~~In the 1950's and 1960's,~~ when we enjoyed a close approximation to full employment, a vigorous creation of resources, both physical capital and an educated population, took place.

*History teaches us that*  
~~We should learn from our history.~~ Successful capitalism requires that the Federal government be the guarantor of full employment and a partner with private enterprise in the creation of resources.

*1930's*  
 A ~~new model~~ 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 should serve as prototypes. Greater Federal government ~~involvement~~ *participation* in the financing of infrastructure investment and in the support of research universities and institutions is necessary. A new Reconstruction Finance Corporation that assures that adequate financing is available for viable firms is needed.

In 1933 Franklin Roosevelt recognized that the disaster of 1929-33 was due to ~~a~~ *me* failure of will and ~~to~~ *to* the blinders which wedded policy to laissez faire, not to a shortage of resources. The requirements for creating a successful capitalism in the 1990's are the same as they were in the

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1930's. We need to understand that we are not resource  
constrained. We are <sup>not</sup> will <sup>be</sup> ~~constrained~~: throwing off the  
conservative ideology that constrains us, is necessary if  
capitalism is once again to realize its potential.

Hyman P. Minsky, The Jerome Levy Economics Institute,  
Bard College, Annandale on Hudson, NY



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*in the 1930's*

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Aspects of the current situation resonate with the Hoover years. Once again the official economists intone "Prosperity is just around the corner". Once again gimmicks, such as the "middle class tax cut", are offered as cures for the failure of the economy. Once again others - this time the Japanese - are held responsible for our ills. Once again an excruciating waste of humans is tolerated.

*F*

Of course American capitalism is not as discredited, nor is the situation as dire, as it was in March of 1933. The economy is floundering, ~~it is not now a disaster.~~

*because our ldrs - R + D do not understand what's happening*

*move up to lead?*

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A new model 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 should serve as prototypes. Greater Federal government involvement in the financing of infrastructure investment and in the support of research universities and institutions is necessary. A new Reconstruction Finance Corporation that assures that adequate financing is available for viable firms is needed.

In 1933 Franklin Roosevelt recognized that the disaster of 1929-33 was due to a failure of will and to the blinders which wedded policy to laissez faire, not to a shortage of resources. The requirements for creating a successful capitalism in the 1990's are the same as they were in the 1930's. We need to understand that we are not resource constrained. We are will constrained; throwing off the conservative ideology that constrains us is necessary if capitalism is once again to realize its potential.

Hyman P. Minsky, The Jerome Levy Economics Institute,  
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