

Some Simple Political and Economic Arithmetic

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In 1988 we will elect a President. If he is not a dud like Carter or a villain like Nixon then barring accidents he is likely to serve two terms. He is likely to be in office until January 1997, i.e. until well nigh the end of the 20<sup>th</sup> century.

The political and economic history of the United States in the 20<sup>th</sup> century can be broken into "thirds" that have distinct political and economic characters. These are a first Republican "third" from 1901 to 1933 (this era really began with McKinley beating Bryan in the election of 1896), a Democratic "third" from 1933 to 1969, and a second Republican "third" from 1969 to now. The third "third" is still incomplete, there are still three Presidential elections before the century is closed.

From 1901 to 1933 we had 24 years of Republican Presidents (McKinley, Teddy Roosevelt, Taft, Harding, Coolidge, and Hoover) and only 8 years of Democratic Presidents (Woodrow Wilson). Over these years the economy was cyclical: recessions, depressions and crises occurred frequently. Although aggregate numbers indicate that output per person grew, the benefits of progress did not trickle

down to the poor. Franklin Roosevelt put the end result of this epoch well when he noted that "One third of the nation was ill fed, ill housed, and ill clothed".

This Republican era ended with the Great Collapse of the capitalist economies between 1929 and 1933. This Great Collapse was triggered by the stock market crash of October 1929. The economy and the financial structure were collapsing for 42 of the 48 months that Hoover was President, even as the President was assuring the country that Prosperity was just around the corner.

In March of 1933, when the first third of this century ended, the economy was clearly a basket case. It was clear that the laissez-faire capitalism of small non-interventionist government and essentially unregulated business that the Republicans stood for was a failure.

The middle third of the century began with the inauguration of Franklin Roosevelt in March of 1933. It lasted for 36 years. For 28 years of this middle "third" the President was a liberal Democrat: 20 years of Roosevelt and Truman and 8 of Kennedy and Johnson. The Republicans held the White House only during Eisenhower's two terms. Eisenhower was a liberal Republican, he would be unacceptable to Reagan Republicans. His administration shared power with the Democratic Congress, which was dominated by the populist liberalism of Rayburn and Johnson.

This middle third of the century began with the country in the pit of the great collapse that had begun in October 1929. Over the 36 years of the middle "third" of this century the country recovered from the depression, fought and won a great war, aided the recovery of both friends and foes in that war, and ended with a reign of unprecedented widely shared prosperity. These 36 years were successful years for the United States and for the economy. It can be argued that this period was the most successful era that American capitalism ever enjoyed.

Roosevelt inherited a failed capitalism in 1933. His successor Johnson handed over a successful capitalism to Nixon in 1969. The interventionist and regulated big government capitalism of 1969 was not only different from the capitalism of 1933, it was far better.

In January 1989, when Reagan will leave office 20 of the 32 years of the last "third" of the 20<sup>th</sup> century will have passed. These years are marked by 16 years of conservative Republican and only four years of Democratic Presidents. Although the only Democrat, Carter, looks good when compared to the Republicans who preceded and followed him, he was by a good measure the most conservative and the least successful Democratic President of the 20<sup>th</sup> century. (The other Democratic Presidents of this century, Wilson, Roosevelt, Truman, Kennedy and Johnson are giants when

compared to all of the Republicans of the 20<sup>th</sup> century, with the possible exception of Teddy Roosevelt and Eisenhower)

During the current era of Republican dominance the economy has fallen back from the great success it reached in the prior era of Democratic dominance. Inflation, unemployment, unprecedented high interest rates, slow growth, bank failures, and the transformation of the United States from a massive international creditor to the world's largest debtor state indicate how the economy has deteriorated since 1969 when Nixon was inaugurated. Whereas the Kennedy maxim that "A rising tide raises all ships" was true for the Democratic era, the current second Republican era of this century has seen the lowering of the standard of life of industrial workers, farmers and those dependent on what the Republicans call the safety net.

The second conservative Republican era of this century has been characterized not only by a deteriorated economic performance, but there are open fears that another economic and financial debacle like that of 1929-1933 may happen again. As an example we can cite the condition of deposit insurance. In 1969, at the end of the Democratic era, the viability and integrity of deposit insurance was beyond question. Today, after 20 years in which conservative Republicans have dominated government and government agencies, deposit insurance is bankrupt. Deposit insurance

is no longer "insurance": it is a government guarantee which will impose large costs upon the government.

There is a moral, a cautionary tale, to this economic and political history of the 20<sup>th</sup> century: A protracted period of conservative Republican rule is dangerous to the health of the economy and leads to a failed Capitalism, whereas a protracted period of liberal Democratic rule is needed to undo the harm that Republicans do and to create and sustain the conditions for a successful capitalism. This proposition, drawn from a reading of history, has a basis in economic theory.

Conservative Republicanism relies heavily on the proposition that the market knows best. This is a false proposition, for the interacting markets of a financially sophisticated capitalism are intermittently highly unstable both on the up side to inflation and the down side to depression. What happened between 1929 and 1933 is a normal, though not an every year, event of a modern Capitalist economy.

We are now living through a burst of speculation and it is evident that successful speculation induces further speculation. Even as great fortunes are made on Wall Street, the economic structure and infrastructure of the United States is deteriorating. The economic structure depends upon enterprise. Speculation, such as has dominated

since the early 1980's, is an enemy of enterprise. It is likely to set the stage for a serious "recession".

In contrast to Republicans, liberal Democrats are suspicious of unconstrained claims that are made for the market. Whether they have come to this position by intuition, experience or analysis they recognize that the outcomes from unregulated markets are not only likely to be unfair but are possibly disastrous. They are more concerned about creating conditions where income from work is available for all, whereas Republicans emphasize the profits that bankers and owners of securities earn. When government is directed to promoting enterprise, then its regulations and interventions curb speculation and help induce employment. Liberal Democrats recognize that 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 forces within the market economy that lead to depressions.

It is not inevitable, but it is quite likely, that we will experience another financial shake out such as 1929-33 before the end of the century. This however need not have the dire consequences for output, employment and living standards that the financial collapse of 1929-33 had, because apt government intervention can contain the damage. However for such intervention to be prompt and apt the interveners need to understand the flaws of capitalism and

to accept the need for government to contain the effects of the flaws, to thwart the natural tendency for free markets to generate chaos from time to time.

Thus if the third "third" of this century ends not with Republicans but with liberal Democrats in the Presidency then we can turn off of the road to disaster on which the Nixon, Carter and now the Reagan years have steered the economy.

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. It is because liberal Democrats have a better understanding of our economy that protracted periods of Republican ascendancy are bad and protracted periods of Democratic ascendancy are good for the economy and therefore for the country.

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