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Capitalism was a failed economic system when Franklin Delano Roosevelt was inaugurated as President 59 years ago. The financial system was bankrupt, industry was in disarray, agriculture was in revolt and for many gainful employment was a distant memory. "Poverty in the midst of the ability to produce plenty" aptly characterized the United States and a select few advanced capitalist countries. Orwell's Wigan Pier and Steinbeck's Grapes of Wrath testify to the failure of capitalism.

Roosevelt's inauguration set in motion an unprecedented age of reform. The aim was to create a successful capitalism. In a large measure this was accomplished. In the 1950's and 60's a closer approximation to full employment was achieved and sustained than had ever before been realized in industrialized America.

The capitalism that was successful differed in essential ways from the capitalism that failed. Whereas small government and laissez faire characterized the failed capitalism big government, intervention and regulation characterize successful capitalism.

Stresses and strains have surfaced in the United states and other successful capitalist economies. Normal evolution of economic institutions and the rise of political forces which do not accept the fragility of successful capitalism are undermining the foundations of the success. Venality, complacency and ignorance may be bringing the age of successful capitalism to a close

Evolution has taken a toll of the institutions of big government interventionist capitalism that was put in place in the thirties. Features of American capitalism during its most successful era, such as strong and responsible trade unions and highly localized and narrowly focused decentralized Savings and Loan Associations, have been diminished in importance. A highly compartmentalized financial system was put in place in the 1930's which fostered enterprise and investment. By the 1980's institutional evolution, such as the rise of pension funds, policy errors, such as the monetarist approach to anti inflation policy which led to sustained high interest rates, and legislated reforms, which broadened the asset base for Savings and Loans, transformed the financial system into an engine for speculation.

A most pernicious change occurred within economic thought as capitalism's success became evident. The critical and skeptical veins of economic thought, which emphasize the conditionality of successful capitalism and whose theoretical structure led to the proposition that

Intervention and big government are necessary for successful capitalism, have been virtually banished from the academy. Even as the technical proficiency of economists increased, economic theory 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 official economic theory loses touch with reality the economy is on "The Road to Disaster". This happened in the Soviet Union and may well be happening in the United States. Capitalism is not frozen in concrete the way Soviet Socialism was. One of its virtues is that it can take many forms. As one form of capitalism runs out of steam, another can be invented and put in its place.

A new age of reform, of renewal, is needed for American capitalism to once again achieve the broad based success of the 1950's and 60's. Apt reform requires an understanding of what it is about capitalism that makes successful capitalism vulnerable to being transformed into failed capitalism. An economic theory which focuses upon the evolutionary forces in Capitalism and how interventions and institutions are necessary to constrain the economic forces that can reduce a market economy with complex financial institutions to chaos, which is what happened some 59 years ago, needs to guide policy if reform is to be fruitful.

The conservative economics of G. Herbert Bush and his advisors marches to the tune of laissez faire. They offer an aspirin where reconstructive surgery is needed.

Roosevelt's clarion call on inauguration day "The only thing we have to fear is fear itself" expressed a nations will to replace chaos with order, to create and sustain an approximation to full employment, and to set the country on a road which did not lead to a quick repeat of the 1929-33 experience. This required changing the institutions of capitalism. The New Deal reformed financial usages, increased resource utilization, fostered resource creation and placed barriers ~~in~~ [^] ~~the~~ ^X way of downward price flexibility.

There was very little in the way of income maintenance by transfer payments: income was maintained by providing work. The welfare state, as a system of transfer payments, such as social security and aid to families with dependent children, and as a provider of services, such as medicare and medicaid, was not a critical part of the New Deal.

Financial reforms eliminated the gold standard constraints upon the Federal Reserve, insured deposits, compartmentalized banking by dividing banking functions among specialized institutions, provided for closer regulation of banks, financial institutions, and financial markets and inaugurated transparency as the rule in corporate finance and financial markets. Resource utilization was promoted by direct employment provided by The Civilian Conservation Corps, the National Youth Administration and the Works Progress Administration. Resource creation took many forms: Public works, rural

electrification, TVA and other river harnessing projects, the tree belt and other reforestation projects, and public housing. In part resource creation and financial reforms were combined: the long term fully amortized home mortgage was closely tied into the creation of housing and the development of a nation of home owners. Furthermore the Reconstruction Financing Corporation financed enterprises as well as refinancing banks. The barriers against a free fall in the price level included agriculture price supports, minimum wages and government support of trade unions.

It should be noted that CCC, WPA, and NYA were project oriented: only in the emergency start up phase were projects of an obvious made work nature. The labor force was taken as it was and projects were designed to use existing abilities. A dole was anathema: income from work was to be available to all who were willing and able to work.

The New Deal emphasized resource creation. Rural electrification, farm to market roads, extension of education, the support of students in high school, college and in graduate school were dimensions of the New Deal. Land reclamation, extension of national parks and the harnessing of rivers to prevent floods and for electric power were all part of the New Deal.

The economy that recovered was different and which prospered after the war was far different than the economy that had collapsed.

realized potential
New Deal
tapped underutilized resources
today we have educated workers (white collar) that can't find work. In the 1920s, blue collar & agriculture workers/farmers.

utilization

Aspects of the current situation resonate with the Hoover years. Once again the official economists intone "Prosperity is just around the corner" or put forth a gimmick, such as "a middle class tax cut", to bring prosperity back.

Of course the economic situation is not as dire as it was 1933. American capitalism is not the thoroughly discredited chaotic system it was in March of 1933. The economy is floundering, it is not yet a disaster. Our major problems may be social and not economic but full employment is a tool for ameliorating social problems. America's leaders are like Hoover: they fear to act and they do not understand what is happening.

A successful economy uses its resources and creates resources. It achieves a close approximation to full employment and its ability to produce grows. In the aftermath of the second world war the big government welfare and armament state provided a close approximation to full employment and a vigorous creation of both physical capital assets and an educated population.

As a result of the relaxation of controls upon the contracts that were acceptable into the portfolios of savings and loans, banks, insurance companies and pension funds household and business debts accumulated so that there are real doubts that they can be validated by wage and gross business cash flows. The ability and willingness of households and business to finance resource creation has

*Must face up
to problems not
that Communism
is gone.*

deteriorated. As a result of ideological bias government resource creation activity atrophied.

The only legacy of the New Deal that has grown is the transfer payments system. In particular the income maintenance system, which is anathema to the principles of the New Deal, has, by means of aid to families with dependent children, created a dependent population. Social Security is a great success of the New Deal, however it has not been adjusted to allow for changes in the population: it has not been adjusted to the increase in life expectancy. In a full employment world, where a WPA backs up private demand for labor, we could quickly move to 70 as the age of retirement. With 70 as the retirement age the wonders of compound interest and of the expanded labor force would enable the country to well afford the costs of an improved Social Security system as well as a medical care system that is not means tested.

As the twenty first century approaches we should not think of putting an exact replica of the CCC, WPA and NYA of the 1930's in place. The details of a permanent program that makes income from employment available to all will certainly be different than the often improvised programs of the 1930's. But is rather foolish not to accept that which worked in our past in generating economic policy we should learn from history. The Federal government must become the guarantor of full employment and a partner of private enterprise in the creation of resources.

In 1933 it was the genius of Franklin Roosevelt to recognize that we, the people of the United States, were not resource constraint^{ed}. The disaster of 1929-33 was due to a failure of will and policy blinders which wedded the leadership to laissez faire. Today the requirements for turning the country around are the same as they were in 1933: a recognition that we are not resource constraint^{ed} and a will to throw off the blinders of the conservative ideology that has done such a disservice to our country.

*Japan bashing a product of
the fall of communism.*