

Some Simple Political and Economic Arithmetic

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Hyman P Minsky

We have just experienced a stock market tremor greater than that of <sup>any day in</sup> ~~October 28,~~ 1929. This need not set off either a collapse of financial institutions or have the dire <sup>1929-1933</sup> consequences for prices, output, employment and living standards, ~~such as took place during 1929-33,~~ because

Appropriate government intervention can contain the damage. However for the interventions to be prompt and apt the <sup>be good</sup> interveners need to understand the flaws of capitalism which make great depressions a possible normal outcome, and understand how government actions can thwart the natural <sup>crust</sup> tendency for free markets to generate chaos from time to time.

The political and economic history of the United States in the 20th century can be broken into "thirds" that have distinct political and economic <sup>"thirds"</sup> characters: a first Republican third from 1901 to 1933, a Democratic third from 1933 to 1969, and a second Republican third from 1969 to now. Over 1901 to 1933 the economy was cyclical: recessions, depressions and financial/shake outs occurred frequently. This Republican era ended with the Great Collapse of the capitalist economies between 1929 and 1933.

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Republican's

In March of 1933, when the first third of this century ended, the economy was 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 had failed.

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Roosevelt inherited a failed capitalism in 1933. This middle third of the century began with the country in the pit<sup>s</sup> of the great collapse, ~~that had began in October 1929.~~ Over the next 36 years 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: ~~It can be argued that~~ 1933-69 was the most successful era that American capitalism ever enjoyed. The interventionist and regulated big government capitalism of 1969 was not only different from the capitalism of 1933, it was far better.

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In 1969 ~~Roosevelt's successor~~ Johnson handed over a successful capitalism to Nixon, ~~who started the second~~ ~~Republican third of this century.~~ During the current era <sup>2-10</sup> the economy has fallen back from the great success it ~~reached in the prior era.~~ 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.~~ The current era has seen the

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lowering of the standard of life of industrial workers, farmers and those dependent on what the Republicans call the safety net.

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.

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Conservative Republicanism relies heavily on the proposition that the market knows best. This is a false proposition, for the interacting product, labor and financial markets of modern 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 just lived through an era of speculation, ~~and~~ ~~It~~ is evident that successful speculation induced further speculation. Even as great fortunes were made on Wall Street, the economic structure, infrastructure and competetiveness of the United States deteriorated. The economic structure and competetiveness depend upon

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enterprise. Speculation, ~~such as has dominated since the~~  
~~early 1980's~~, is ~~an~~ not only an enemy of enterprise, it can  
set the stage for <sup>a</sup> serious "recession!"

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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. <sup>and</sup> They  
are ~~mainly~~ concerned about creating conditions where income  
from work is available ~~for all, whereas Republicans emphasize~~  
~~the profits that bankers and owners of securities earn.~~

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~~TF~~ <sup>and</sup> ~~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.

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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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