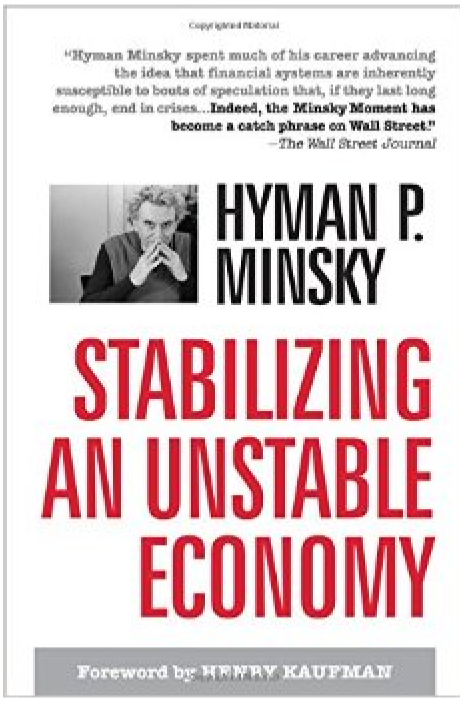
Stabilizing An Unstable Economy



Synopsis

â œMr. Minsky long argued markets were crisis prone. His ’moment’ has arrived.â • -The Wall Street Journal In his seminal work, Minsky presents his groundbreaking financial theory of investment, one that is startlingly relevant today. He explains why the American economy has experienced periods of debilitating inflation, rising unemployment, and marked slowdowns-and why the economy is now undergoing a credit crisis that he foresaw. Stabilizing an Unstable Economy covers: The natural inclination of complex, capitalist economies toward instability Booms and busts as unavoidable results of high-risk lending practices â œSpeculative financeâ • and its effect on investment and asset prices Government’s role in bolstering consumption during times of high unemployment The need to increase Federal Reserve oversight of banks Henry Kaufman, president, Henry Kaufman & Company, Inc., places Minsky’s prescient ideas in the context of today’s financial markets and institutions in a fascinating new preface. Two of Minsky’s colleagues, Dimitri B. Papadimitriou, Ph.D. and president, The Levy Economics Institute of Bard College, and L. Randall Wray, Ph.D. and a senior scholar at the Institute, also weigh in on Minsky’s present relevance in today’s economic scene in a new introduction. A surge of interest in and respect for Hyman Minsky’s ideas pervades Wall Street, as top economic thinkers and financial writers have started using the phrase â œMinsky momentâ • to describe America’s turbulent economy. There has never been a more appropriate time to read this classic of economic theory.

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Customer Reviews

This classic work of political economy, first published in 1986, has valuable lessons for us today.

Minsky studies the recessions of 1975 and 1982, economic theory, institutions, particularly banks, and finally presents an agenda for reform.Financial traumas have led to ever-worse recessions, in 1970, 1975, 1979-80, 1982, 1987, 2002 and the present. As he notes, "the normal functioning of our economy leads to financial trauma and crises, inflation, currency depreciations, unemployment, and poverty in the midst of what could be virtually universal affluence - in short, .. financially complex capitalism is inherently flawed." Yet he believes, "the collapse of aggregate demand and profits, such as occasionally occurred and often threatened to occur in pre-1933 small government capitalism, is never a clear and present danger in a Big Government capitalism such as has ruled since World War Two." Life is disproving this hope. What causes these recessions? Minsky writes, "the Wall Streets of the world are important; they generate destabilizing forces. ... This instability is not due to external shocks or to the incompetence or ignorance of policy makers. Instability is due to the internal processes of our type of economy. The dynamics of a capitalist economy which has complex, sophisticated, and evolving financial structures leads to the development of conditions conducive to incoherence - to runaway inflations or deep depressions." Strangely, capitalism can’t handle capital: "capitalism is flawed precisely because it cannot readily assimilate productive processes that use large-scale capital assets."What is to be done? He warns, "Meaningful reforms cannot be put over by an advisory and administrative elite that is itself the architect of the existing situation.

Unfortunately, economists seem to given more attention after they’re deceased and it appears Hyman P. Minsky (1919 -1986) is one in this category as well. As I read this book, originally published in 1986, I was amazed at not only one, but the many, parallels to today his synthesis of economic views, a blend of today’s camps including the behavioral, had.More valuable to you are his comments than mine, so I will quote Minsky as much as possible in this review and highly suggest its reading to fill in the gaps he so well articulates on his own. I decided to read this book because I’m not an economist and heard how his theories may better apply today than ever.Many years later, the preface to this edition provides an excellent summary of Minsky’s work. You do not need to be an expert to follow along. In the Introduction (8), Minsky points out that the institutional arrangements we have today in response to the Great Depression were set up pre-Keynes and with a pre-Keynesian understanding of the economy. Ã Â¨The evidence from 1975 indicates that, although the simple Keynesian model in which a large government deficit stabilizes and the helps the economy to expand is valid in a rough and ready way, the relevant economic relations are more complicated than the simple model allows. In particular, because what happens in our economy is so largely determined by financial considerations, economic theory can be relevant only if finance is integrated in the structure of the theory.Ã Â¨Minsky discusses Big Government and lender-of-last-resort (Federal Reserve or Fed) which is enlightening is and of itself. The balance of Chapters two and three are devoted to how these two interventions may work in theory.

This is and has really re-emerged as a classic and prophetic book on the endogenous factors that drive instability. Again, the book is referred to a little too late and undoubtedly the same will happen in whatever next bubble next pops. To give a quick overview, most people study economic growth as as function of the economy's factors of production (including human capital) and their dynamics (modern economists are updating methods and ideas but people are still taught the solow growth model as foundational). The "trajectory" of an economy is usually smooth and the stochastic growth drivers/detractors are technology and exogenous shocks, where exogenous are not known from a substance or timing perspective a priori. Minsky explores a form of instability that is not discussed in most growth models, he discusses the instability that is embedded in our economies resulting from the use of currency its fluctuation from being scarce to abundant.To me his insights as to the dynamics of what drives asset bubbles, in particular, banks propensity to lend as well as agents propensity to borrow against assets as a function of recent history was so spot on it makes you smile were it not so sad that it just happened. Minsky has identified a particularly dangerous form of the animal spirits that Keynes and more recently Schiller have written about, especially in a fiat currency environment in which we are separated from the pricing of money mechanism that the central bank is empowered to control. This book is worth reading for a multitude of reasons.

Economy: Find Your Super Users, Master the Forever Transaction, and Build Recurring Revenue An Everlasting Meal: Cooking with Economy and Grace How to Make Your Car Last Forever: Avoid Expensive Repairs, Improve Fuel Economy, Understand Your Warranty, Save Money (Motorbooks Workshop) Scraping By: Wage Labor, Slavery, and Survival in Early Baltimore (Studies in Early American Economy and Society from the Library Company of Philadelphia) Disposable Domestics: Immigrant Women Workers in the Global Economy Capital: Volume 1: A Critique of Political Economy (Penguin Classics) Take Back the Economy: An Ethical Guide for Transforming Our Communities Money and the Nation State: The Financial Revolution, Government, and the World Monetary System (Independent Studies in Political Economy)