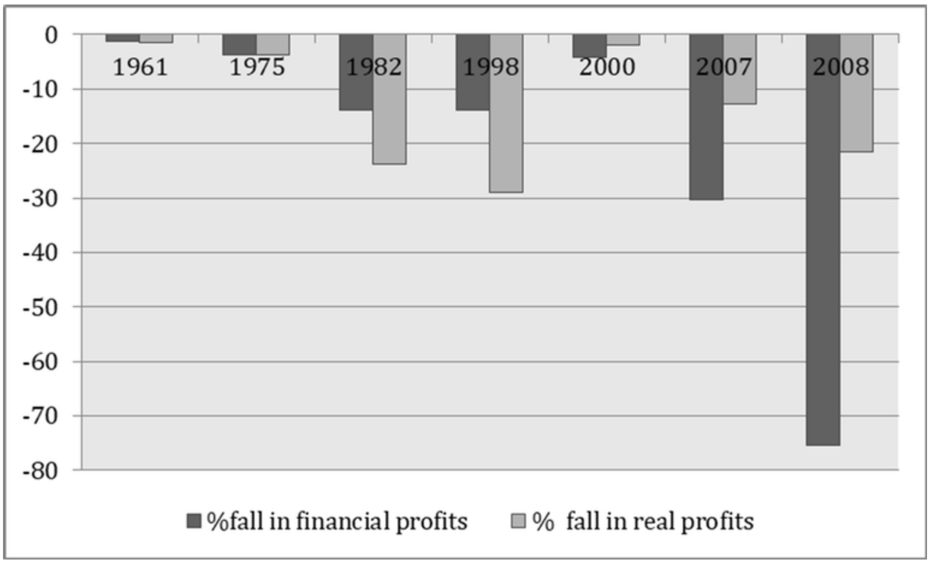
Minsky and socialism

January 14, 2020

Recently, the Levy Institute, the think-tank centre for post-Keynesian economics (and in particular the theories of Hyman Minsky, the radical Keynesian economist of the 1980s), published a short video that that shows Minsky explaining his theory of crises under capitalism in his own words at an event in Colombia, November 1987. It is a very clear account of his theory of crises based on 'financial fragility".

When the Great Recession hit the world capitalist economy, many radical and Marxist economists, and even some mainstream economists, called the GR a 'Minsky moment'. In other words, the cause of the Great Recession was a financial crash resulting from excessive debt that eventually could not be serviced. Minsky's key contention, that financial instability is endogenously generated, implies that not only financial but also 'real' crises arise as a result of the inner workings of the financial system*: 'History shows that every deep and long depression in the United States has been associated with a financial crisis, although, especially in recent history, we have had financial crises that have not led to a deep and long depression'* (Minsky*).

In my view, this is an accurate statement. A financial crash occurs in every capitalist slump, but financial crashes can occur without a slump. But this suggests that what is going on in the 'real economy' is what decides a financial crash, not vice versa. Indeed, as G Carchedi has shown (see graph below), when *both* financial profits and profits in the productive sector start to fall, an economic slump ensues. That's the evidence from the post-war slumps in the US. But a financial crisis on its own (as measured by falling financial profits) does not lead to a slump if productive sector profits are still rising.



Indeed, if you listen closely to Minsky's account (above) of his crisis theory, he recognises that excessive debt in the form of Ponzi finance only leads to a crash when the profits engendered in business and in banking are no longer sufficient to sustain debt expansion. As Minsky puts it, *"borrowers are myopic to the past and blind to the future."*

At the recent ASSA 2020 conference, the annual meeting of mainstream economists organised by the American Economic Association, there were also sessions by the more radical wings of economics: post-Keynesians and Marxists. Riccardo Bellofiore, the erudite scholar of Marxist, Sraffian and Keynesian economic theory, presented two papers that offered interesting insights on Minsky's theories. In his first paper, Bellofiore argues that "*the current crisis is the outcome of money manager capitalism stage of capitalism – the real subsumption of labour to finance, in Marxian terms. The most promising starting points are the structural dimensions of Minsky's analysis and the monetary circuit approach."* Minsky'sSocializationOfInvestment__preview (6)
In his second paper, he argues that *"Minsky's contributions are major necessary ingredients to a rethinking of Marxian theory of capitalist dynamics and crises."* *MarxBetweenSchumpeterAndKeynes_Augu_preview (2)*

I beg to differ. I do not think that Minsky's theories dovetail with Marx's theory of crises or that they provide a better explanation of booms and slumps than that of Marx. Marx not Minsky As Maria Ivanova from Goldsmiths University, London has argued effectively (in a paper of a few years ago comparing Minsky and Marx's theories of crises), Marx was firmly opposed to blaming crises on financial speculation, or on the recklessness of single individuals (Marx and Engels, Collected Works, 1975, p. 401). *"Speculation and panic may trigger crises, but to trigger something does not mean to cause it. For Marx, the ultimate origins of all crises lie in the 'real' economy of production and exchange."* (Ivanova conf_2011_maria_ivanova-on-marx-minsky-and-the-gr)

Ivanova argues that Marx's concept of money could not be more different from Minsky's. Marx saw money as the social expression of value – the amount of socially necessary labour time embodied in a commodity. Money thus expresses the deepest contradiction of the capitalist production relations in 'a palpable form'. The Minskyan perspective prides itself on its Keynesian origins. *"In contradistinction to Marx, Keynes accorded primary importance to interest-bearing capital where capital appears as property and not as function. And since capital in that form does not function (i.e. does not engage in immediate production), it does not directly exploit labour; class conflict appears obliterated since the rate of profit now forms an antithesis not with wage labor but with the rate of interest"* .

Ivanova reckons that implicit in the Keynesian-Minskyan perspective is the insight that finance can repress production, overpower it, and 'decouple' from it (at least temporarily) to the detriment of the wider economy – this is what Bellofiore argues is its major insight. But it follows from this that Minsky reckons that if finance were controlled, regulated, restrained, some of the worst ills of capitalism could be kept at bay. This view is in sharp contrast to Marx, who reckoned that the inherent contradictions of capitalism were beyond human control.

Minsky believed, in line with the Keynesian tradition, that the crises arising from the permanent disequilibrium of the capitalist system could be contained by the concerted effort of 'Big Government and Big Finance ('monetary authorities). As Ivanova puts it: *"the popular tale of the purely financial origins of the recent crisis dovetails nicely with the belief that financial instability and crises, albeit tragically unavoidable and potentially devastating, can be managed by means of money artistry"* No wonder many mainstream economists in the depths of the global financial crash, like Paul Krugman, reckoned that *"we are all Minskyans now".*

But the belief that social problems have monetary/financial origins and could be resolved by tinkering with money and financial institutions, is fundamentally flawed. *"For the very recurrence of crises attests to the limits of fiscal and monetary policies as means to ensure 'balanced' accumulation.""* (Ivanova). Minsky** considered the dependence of non-financial businesses on 'external funds to finance the long-term capital development of the economy' a key source of instability. This provided an important rationale for government intervention. In his famous book, Minsky, Stabilizing an Unstable Economy (1986), he wrote *'Once Big Government stabilizes aggregate profits, the banker's reason for market power loses its force'.*

So the job of the radical economist was to restore the profitability of capital by the intervention of the monetary and fiscal authorities, according to Minsky. This was more important that shifting the burden of any financial crisis off the backs of the many. As Minsky said in the 1980s: *"It may also be maintained that capitalist societies are inequitable and inefficient. But the flaws of poverty, corruption, uneven distribution of amenities and private power, and monopoly-induced inefficiency (which can be summarized in the assertion that capitalism is unfair) are not inconsistent with the survival of a capitalist economic system. Distasteful as inequality and inefficiency may be, there is no scientific law or historical evidence that says that, to survive, an economic order must meet some standard of efficiency and equity (fairness)* ."

Riccardo Bellofiore in his ASSA paper is keen to tell us that, in his book on Keynes (1975), Minsky adopted a more radical position than Keynes on the need for the "socialization of investment" as the solution to crises. Riccardo reckons that *"Minsky's socialization of investment, thanks to his reference to the New Deal, is not far from a socialization in the use of productive capacity: it is a "command" over the utilization of resources; its output very much looks like Marx's "immediately social" use values. It is complementary to a socialization of banking and finance, and to a socialization of employment. Minsky goes further that a "Keynesian" welfare state and argues for a full employment policy led by the government as direct employer, through extra-market, extra-private enterprise and employment schemes."*

But this was in 1975. Mike Beggs, a lecturer in political economy at the University of Sydney in a recent article, shows that, while that Minsky started off as a socialist, at least in following the ideas of 'market socialism' by Oscar Lange, he eventually retreated from seeing the need to *replace* capitalism with a new social organisation (or 'socialised investment'), to trying to resolve the contradictions of finance capital *within* capitalism, as his eventual financial fragility theory of crises shows.

As Bellofiore says, in the 1970s, Minsky contrasted his position from Keynes. Keynes had called for the *"somewhat comprehensive socialization of investment"* but went onto to modify that with the statement that *"it is not the ownership of the instruments of production which it is important for the State to assume"* — it was enough to *"determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them."* But Minsky went further and called for the taking over of the "towering heights" of industry and, in this way, Keynesianism could be integrated with the 'market socialism' of Lange and Abba Lerner.

But by the 1980s, Minsky's aim was not to expose the failings of capitalism, but to explain how an unstable capitalism could be 'stabilised'. Biggs: *"His proposals are aimed, then, at the stability problem. ….The expansion of collective consumption is dropped entirely. Minsky supports what he calls "Big Government" mainly as a stabilizing macroeconomic force. The federal budget should be at least of the same order of magnitude as private investment, so that it can pick up the slack when the latter recedes — but it need be no bigger."*

Indeed, Minsky's policy approach is not dissimilar from that of today's Modern Monetary Theory supporters. Minsky even proposed a sort of MMT job guarantee policy. The government would maintain an employment safety net, promising jobs to anyone who would otherwise be unemployed. But these must be sufficiently low-paid to restrain market wages at the bottom end. The low pay is regrettably necessary, said Minsky, because "*constraints upon money wages and labor costs are corollaries of the commitment to maintain full employment."* The discipline of the labour market must remain: working people may not fear unemployment, but would surely still fear a reduction to the minimum wage (Beggs). Thus, by the 1980s, Minsky saw government policy as aiming to establish financial stability, in order to support profitability and sustain *private* expenditure. *"Once we achieve an institutional structure in which upward explosions from full employment are constrained even as profits are stabilised, then the details of the economy can be left to market processes."* (Minsky).

Minsky's journey from socialism to stability for capitalist profitability comes about because he and the post-Keynesians deny and/or ignore Marx's law of value, just as the 'market socialists', Lange and Lerner, did. The post-Keynesians and MMTers deny/ignore that profit comes from surplus value extracted by exploitation in the capitalist production process and it is this that is the driving force for investment and employment. They ignore the origin and role of profit, except as a residual of investment and consumer spending. Instead they all have a money fetish. With the money fetish, money replaces value, rather than representing it. They all see money (finance) as both causing crises and, also as solving them by creating value!

In my view, far from Minsky providing the "*necessary ingredients to a to a rethinking of Marxian theory of capitalist dynamics and crises*", as Bellofiore argues, Minsky's theory of crises, like all those emanating from the post-Keynesian think tank of the Levy Institute, falls well short of delivering a comprehensive causal explanation of regular and recurring booms and slumps in capitalist production. By limiting the searchlight of analysis to money, finance and debt, Minsky and the P-Ks ignore the exploitation of labour by capital (terms not even used). They fail to recognise that financial fragility and collapse are *triggered* by the recurring insufficiency of value creation in capitalist accumulation and production.

Moreover, by claiming that capitalism's problem lies in the finance sector, the policy solutions offered are the regulation and control of that sector, rather than the replacement of the capitalist mode of production. Indeed, that is the very path that Minsky took: from his socialism and "socialisation of investment" in the 1970s to 'stabilising finance' in the 1990s.

* Minsky, H. P. (1992a) Reconstituting the United States financial structure: some fundamental issues, Working Paper No. 69, Levy Economics Institute of Bard College.

** Minsky, H. P. (1996) Uncertainty and the institutional structure of capitalist economies: remarks upon receiving the Veblen-Commons award, Journal of Economic Issues, 30, pp. 357-368.