Minsky in the shadows, Minsky in the light

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Map

1. Keynesianism after the crisis: I never stopped loving you
2. The neoclassical sink, the heterodox spiral: the circle game
3. Minsky in the shadows: Nobody knows my name
4. Wage-led growth and Modern Monetary Theory: Out of the crypt?
5. Krugman vs Kelton on MMT: Shut your mouth and know your role!
6. The econometrics of wage-led growth: there was a flaw ... a flaw in the model
7. Putting the instability back into the financial instability hypothesis 1: Space is the place
8. Putting the instability back into the financial instability hypothesis 1: State of siege
9. Uncertainty, excess, crisis, struggle, power... uncertainty, excess, crisis, struggle, power ... Uncertainty...: Walk this way
1. Keynesianism after the crisis: I never stopped loving you
I never stopped loving you, I just stopped showing it.
Let’s start with a common understanding: Keynesianism is Keynesian policy. Forget ‘Post’ and ‘New’. The thing is the thing.

- *Keynesian policies* build on a central proposition: appropriate nation-state actions can stabilize market processes in which participants are motivated by private interest.
- The core question, then: can *national* economic policies offset or limit the impact of these ‘global storms’, even while these storms impose constraints on national action?
- The contradiction: we are seeing new imperatives for national action due to processes that are undercutting nation-states’ capacity.
- So what *is* Keynesianism? Can you have Keynesianism without the state?

2. Keynesianism ten years after the crisis
IN THE LONG RUN WE ARE ALL DEAD

KEYNESIANISM, POLITICAL ECONOMY AND REVOLUTION

GEOFF MANN
2. Keynesianism ten years after the crisis

Geoff Mann, *In the Long Run We are All Dead* (Verso 2016).

Mann calls Keynes a Hegelian, as follows:

- He traces to Robespierre the idea that ‘trust in the people’ doesn’t mean turning over all political questions to the vote of all – for this can lead to chaos, revenge. Rather, ‘trust in the people’ means to ‘manage’ the people so as to bring about a civil state of affairs, ‘those who want to secure the people’s freedom, but cannot trust the people to do so. They are Keynesians, or radicals harbouring a secret Keynesianism.’ (113)

- Hegel is seen, in the realm of political economy, as attempting to hang onto stability in the midst of change.

- Keynes wants to manage the people for their own good – he wants stability in the midst of change.
2. Keynesianism ten years after the crisis

‘Keynes was in no way the first Keynesian, he was not the last, and there will be more yet. What we call Keynesianism is as old as liberal capitalism, and as long as it is the hegemonic mode of social and political economic organization, as it remains in much of the world, Keynesian politics and political economy will find themselves empowered when they are deemed most desperately necessary.

In this sense, Keynes and Keynesianism were not “resurrected” following the financial meltdown of 2007-08, because neither was ever “dead,” however hard some mainstream economists might have tried to convince us otherwise.’
2. Keynesianism ten years after the crisis

‘Capitalist modernity, in fact, is and always has been Keynesian on the inside, as it were – the call for the state when disorder looms or revolution threatens has always been an option, one that, like a panic button, is essential even when we never use it. Indeed, political economy is … Keynesian by definition: when the social order is fraying it is the art and science of revolution without revolutionaries. …

‘If Keynesianism returned with the most recent crisis, it is not because of Keynes’s theory of effective demand or his employment function, but because climate change, war, and accelerating inequality seem to have put what many think of as a “civilization” on the ropes.’ (pages xi-xii).
‘If Keynesianism returned with the most recent crisis, it is not because of Keynes’s theory of effective demand or his employment function, but because climate change, war, and accelerating inequality seem to have put what many think of as a “civilization” on the ropes.’ (Mann, 2016)

But what if crises of jobs and the subprime collapse have instead led ‘the people’ to reject their previous ‘ruling elite’, in favour of a strong man using ‘Keynesian policies’. This is the opposite of ‘Keynesianism’ as Mann defines it. And it means Keynesian policies and Keynesianism are different in kind.
2. Keynesianism ten years after the crisis


P. 130: ‘public works programmes were not backed by any theory which showed why they were needed; the classical theory showed they were unnecessary and harmful. .. The economic context was right for a new theory. Mass unemployment of 20 per cent .. Demanded intellectual as well as political attention.

[Marx did have the reserve army of the unemployed, but] Marx missed the growth of a social balance between business, labour and government, which took the revolution off the agenda.’
2. Keynesianism ten years after the crisis


P. 131: ‘Keynes’ theory also undercut the argument for fascism. .. Fascism distinguished between ‘good’ and ‘bad’ capitalism, a division corresponding roughly to that between national industrial and international financial capitalism. Its attack on international finance was explicitly or implicitly anti-Semitic. It was to this kind of politics that Keynesian thinking offered an antidote, by providing a rationale for keeping banking under national control.

Keynes’s theory could have become the basis of policy only under conditions of social balance. His was the economics of the middle way: the best deal that liberal capitalism could expect in a world veering toward the political extremes.’
2. The neoclassical sink, the heterodox spiral: the circle game
1. The Neoclassical Sink, the Heterodox Spiral


- The subprime crisis was apparently a bullet aimed at the heart of neoclassical model; so why did it recover so quickly to ‘business as usual’?

- The paper flags two reasons that the ‘decade of financial crisis’ (Tooze 2018) has not led mainstream economists to rethink their commitment to general equilibrium models, especially DSGE:

  1. the different theoretical reference points of mainstream & heterodox economists
  2. the asymmetric lines of communication within the profession – who has access to whom, who talks with – and listens to – whom?
1. The Neoclassical Sink, the Heterodox Spiral

The Neoclassical ‘sink’

• Neoclassical economics: analysing rational choice in individual or representative markets provides a sufficient basis for virtually all problems involving the allocation of resources in society.

• Neoclassical models often involve deviations from Walrasian general equilibrium (WGE). The criterion of ‘Occam’s razor’ is applied in this approach with reference to the distance of any explanation from WGE.

The Heterodox ‘Spiral’

• Capitalism cannot be described by an autarchic equilibrium model of market processes. .. capitalism is necessarily defined by its destabilizing tendencies. The source of destabilization [include] social power, fundamental uncertainty, or class-based, gender-based, or racial/ethnic inequality.

• There are many starting points, and they are different – it’s a ‘spiral’.
As for non-intersecting lines of communication, note how mainstream journals don’t use topic words that are fundamental for heterodox economists.
Figure 2: "Financial instability" or "financial fragility" as topic words in Web of Science, selected journals, 1981-2014.
Figure 3: "Minsky" as topic word in Web of Science, annual averages in selected journals, 1981-2014

- Heterodox economics
- Mainstream economics
- Regional studies/geography
3. Minsky in the shadows: Nobody knows my name
James Baldwin

NOBODY KNOWS MY NAME

MORE NOTES OF A NATIVE SON
Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression

By Ben S. Bernanke*

During 1930–33, the U.S. financial system experienced conditions that were among the most difficult and chaotic in its history. Waves of bank failures culminated in the shutdown of the banking system (and of a number of other intermediaries and markets) in March 1933. On the other side of the ledger, exceptionally high rates of default and bankruptcy affected every class of borrower except the federal government.

An interesting aspect of the general financial crises—most clearly, of the bank failures—was their coincidence in timing with adverse developments in the macroeconomy.² Notably, an apparent attempt at recovery from the 1929–30 recession² was stalled at the time of the first banking crisis (November–December 1930); the incipient recovery degenerated into a new slump during the mid-1931 panics; and the economy and the financial system both reached their respective low points at the time of the bank “holiday” of March 1933. Only with the New Deal’s rehabilitation of the financial system in 1933–35 did the economy begin its slow emergence from the Great Depression.

A possible explanation of the prolonged declines, and that sources of financial panics unconnected with the fall in U.S. output have been documented by many writers. (See Section IV below.)

Among explanations that emphasize the opposite direction of causality, the most prominent is the one due to Friedman and Schwartz. Concentrating on the difficulties of the banks, they pointed out two ways in which these worsened the general economic contraction: first, by reducing the wealth of bank shareholders; second, and much more important, by leading to a rapid fall in the supply of money. There is much support for the monetary view. However, it is not a complete explanation of the link between the financial sector and aggregate output in the 1930’s. One problem is that there is no theory of monetary effects on the real economy that can explain protracted nonneutrality. Another is that the reductions of the money supply in this period seems quantitatively insufficient to explain the subsequent falls in output. (Again, see Section IV.)

The present paper builds on the Friedman-Schwartz work by considering a third way in which the financial crisis (i.e., which


It should be stated at the outset that my theory does not offer a complete explanation of the Great Depression (for example, nothing is said about 1929–30). Nor is it necessarily inconsistent with some existing explanations. However, it does have the virtues that, first, it seems capable (in a way in which existing theories are not) of explaining the unusual length and depth of the depression; and, second, it can do this without assuming markedly irrational behavior by private economic agents. Since the reconciliation of the obvious inefficiency of the depression with the postulate of rational private behavior remains a leading unsolved puzzle of macroeconomics, these two virtues alone provide motivation for serious consideration of this theory.

There do not seem to be any exact antecedents of the present paper in the formal economics literature. The work of Lester Chandler (1970, 1971) provides the best historical discussions of the general financial crisis extant; however, he does not develop very far the link to macroeconomic performance. Beginning with Irving Fisher (1933) and A. G. Hart (1938), there is a literature on the macroeconomic role of inside debt; an interesting recent example is the paper by Frederic Mishkin (1978), which stresses household balance sheets and liquidity. Benjamin Friedman (1981) has written on the relationship of credit and aggregate activity. Hyman Minsky (1977) and Charles Kindleberger (1978) have in several places argued for the inherent instability of the financial system, but in doing so have had to depart from the assumption of rational economic behavior. None of the above authors has emphasized the effects of financial crisis on the real costs of credit intermediation, the focus of the present work.

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4 This is especially true of the more recent work, which tends to ignore the nonmonetary effects of the financial crisis. Older writers often seemed to take the disruptive impact of the financial breakdown for granted.

5 I do not deny the possible importance of irrationality in economic life; however, it seems that the best research strategy is to push the rationality postulate as far as it will go.
ANIMAL SPIRITS, FINANCIAL CRISES AND PERSISTENT UNEMPLOYMENT*

Roger E.A. Farmer

This article uses a rational expectations model with multiple equilibrium unemployment rates to explain financial crises. The model has equilibria where asset prices are unbounded above. I argue that this is an important feature of any rational-agent explanation of a financial crisis, since for the expansion phase of the crisis to be rational, investors must credibly believe that asset prices could keep increasing forever with positive probability. I explain the sudden crash in asset prices that precipitates a financial crisis as a large shock to expectations that leads to a permanent increase in the unemployment rate.

This article develops a rational expectations model with multiple equilibrium unemployment rates, where the price of capital may be unbounded above. I argue that this property is an important feature of any rational-agent explanation of a financial crisis, since for the expansion phase of the crisis to be rational, investors must credibly believe that asset prices could keep increasing forever with positive probability.
A second possible reason why business cycles are asymmetric and why unemployment persists following a financial crisis is that the mechanisms of fiscal and monetary control that regulate modern market economies are constrained by government indebtedness or by monetary impotence as the nominal interest rate hits its lower bound. This explanation is consistent with the vision of business cycles described by Minsky (2008) in his widely acclaimed book, *Stabilizing an Unstable Economy*. In Minsky’s view, the natural tendency of a free market economy is to swing between bouts of expansion and stagnation and it is the stabilising forces of fiscal and monetary interventions by government that have prevented post-war business cycles from replicating the worst excesses of nineteenth century capitalism.\(^\text{17}\)

\(^{17}\) In my view, this view is correct but Minsky’s implementation of his vision is overly dismissive of conventional economic theory. I do not believe that we must jettison two hundred and fifty years of economic thought to accommodate his ideas.
So let it be with Caesar. The noble Brutus
Hath told you Caesar was ambitious:
If it were so, it was a grievous fault,
And grievously hath Caesar answer'd it.
Here, under leave of Brutus and the rest—
For Brutus is an honourable man;
So are they all, all honourable men—
Come I to speak in Caesar's funeral.
He was my friend, faithful and just to me:
But Brutus says he was ambitious;
And Brutus is an honourable man.
He hath brought many captives home to Rome
Whose ransoms did the general coffers fill:
Did this in Caesar seem ambitious?