

The Mystery of the Minsky Moment

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Which is -- Why would anyone think there was anything mysterious about it? The core difference between Minsky's economic theories and that of free market economists is that the former believes markets are inherently unstable while the latter says that markets naturally adjust toward a state of equilibrium unless jolted in positive or negative directions by major external events. (Note the weird similarity between these descriptions of the economy and the arguments between conventional quantum physicists and chaos theorists).

On the surface Minsky's argument seems to obviously be the correct one. We have had many economic collapses that were caused by failures of the market economy itself. Libertarians and other apologists for the market blame the state and its policies for the economic crises. It interferes with normal market function because of popular pressure, etc. They call these policies socialistic and often refer to the state apparatus in terms that evoke Stalinist-like central planning.

Their arguments can either be politely characterized as disingenuous, more seriously as lies, or simply as reflecting the stupidity of those that state them. We live in a predominantly capitalist world. Those individual capitalist nations are ruled by a capitalist government or state which not only governs but suppresses those attempting to weaken capitalist power. What angers many capitalists is that their state, in maintaining the interests of capitalism as a whole, must at times limit the actions of some sectors of the system because of the damage they have done to the system as a whole.

A clear example of the disingenuous-lying-stupidity syndrome is the free market fanatics' hatred of the Federal Reserve banking system. The current central bank manipulation of credit and liquidity is like a dictatorship suppressing entrepreneurial freedom. But surely they know that the Federal Reserve came into existence in 1912 because of the banking crisis of 1911 in which J. P. Morgan had to stake his personal fortune in order to prevent a national banking collapse. The Fed was formed by the nation's biggest banks operating under the auspices and massive financial support of the U. S. government.

The free marketers acknowledge that crises will occur but they will recover more quickly without government intervention as they did in pre-regulation days. Again: disingenuous, lies, stupidity. The Panic of 1837 had much to do with the revolutions that swept Europe and other parts of the world in 1848. The free marketers expect the masses, already living at the edge of survival, to patiently suffer and wait for the recovery of the cause of their misery.

But Minsky's psychological explanation of the cause of economic crises -- that complacency develops in stable systems leading to instability because investors just can't help shifting from a hedge mentality (borrowers must pay principal and interest with regularity) to speculative (just interest) to Ponzi (just give me an unsecured paper asset). In fact, those transitions are inherent in the system and

only mirrored in the actions of its operatives. This gets into the complexity of an individual making decisions in a massive group of other individuals also making decisions toward the same end (or one that differs). Under capitalism those decision makers are cogs in the dynamics of the machine. One would expect those with a claimed knowledge of how the system works, especially monetarists, to understand that capitalism is not a static system like slave and feudal systems which *were* fundamentally changed through interaction with other states or natural events. They are your basic C-M-C societies, and while capitalism also has its wars, the goal is always M after C. The dominance of the real (commodities) is replaced by an infinite abstraction (money). That's what makes capitalism a dynamic system as opposed to a static one, and that's why it *must* collapse periodically because we and the world are in fact real.

The Conference Board's consumer confidence index once again demonstrated its worthlessness. It found that future confidence was the highest since 1/08 and current confidence the highest in 6 months (about 82). The CB was formed in 1916 by big business as a PR outfit to soften its negative image following Triangle Shirtwaist and the Ludlow Massacre. It phones people and asks 5 questions - 2 on present and future business conditions, 2 on present and future employment conditions, and one on family income in 6 months. In short, 80% of the thrust of the questioning is aimed at what business people think -- it has nothing to do with general consumer confidence. The only proper answer for a worker or poor person is to hang up the phone. Meanwhile, the UMich report is down to 70 with 100 being normal. New home sales, planned new home sales, and existing home sales continue to go nowhere. But note how we've heard endlessly repeated that new home sales have gotten legs and are not set to grow, grow, grow. But why not state a simple clarifying fact - they are just about where they were at the end of 2008 - roughly 400,000. They have essentially done nothing, and now that nothing is slowing down.

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