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From the "Credit Crunch" of '66, to the March Massacre of Silicon Valley Bank The Historical Hyman Minsky

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Abstract

Hyman P Minky documented historically the necessarily institutional function of government and central banks in the circumstance the natural processes of a financialized advanced profit seeking capitalist economy is inherently, prone to bouts of severe instability which if left alone will lead ultimately to credit crunches radical debt deflations runaway inflation or deep depressions. Minsky acknowledged the tendency toward market "coherence" which has been identified by writers on economics at least back to Adam Smith, "The invisible hand" or Law of value. However, in his view this tendency toward coherence, which may simply be understood as our common social interdependence, is not the only force operating. Coherence, like gravity, is a weak force not capable of resisting explosive bouts.

The fact that capitalist economies to not spiral upward or downward in radical inflations or deflations (sometimes they do and have) is due only to the evolution of systemic management on the part of social institutions, central bank, government, regulators, or major institutional private sector players Minsky was an "original historian" of the movement toward instability in the mid to late 20th century. His theory of stages is explored and updated in this article.

Keywords: *Hyman Minsky, instability, market coherence, inflation, business cycles, historical stages theory*

I. Introduction

> Over the first twenty years (1946--1965) after World War II, [In the US] with the exception of a burst of inflation when the Korean War broke out, a reasonably close approximation to the ideal of "full employment at stable prices" was achieved. This era of success was broken with the credit crunch of 1966 (Hyman P. Minsky [1981])

Facing a new year, 1966, Gardener Ackley, chair to President Johnsons' Council of Economic Advisors addressed American Finance Association, with "Problems of the 1966 Forecast." He expressed concern over the tightness of the labor market, slowing productivity, and the potential for rising prices. He mused that the unemployment rate, approaching 4 percent would begin to affect the macro-economic climate differently than had been observed in the then recent, movement from about 5.5 percent to 4.5 percent. (Ackley 1966) In his view the systemic response had been flat to date. He was concerned whether further investment in plant and equipment would push toward a threshold. "[A]t some point, the economy will really be operating at the ceiling set by labor-force growth and the advance of productivity. The growth of real output cannot forever be as fast as we have had during the past several years." he said.

> "For a few days in late August and early September.[1966].sober men in the money markets took seriously the possibility of a money crisis, or panic, -- a freezing up in which money could not be borrowed at any rate of interest and bonds could not be sold at any price. . . . Economists and money market men have known all along that the Fed. . . had the weapons to stop a panic. But they, and the [Fed] have also known that any action by the Federal Reserve to restore an orderly money market would run directly counter to the Fed's policy of curbing inflation by checking the growth of bank credits". (Dale, New York Times 1966)

Known as the "Credit Crunch of 1966," this circumstance was characterized by a liquidity scare in the bond markets, a fall in savings flows into non-bank financial intermediaries, and a slowdown in residential construction. (Berger 1969) Though resolved in short order, and not resulting in dramatic short-term macroeconomic consequences, it was significant--as indicated by Minsky-- as a return, if light handed when compared to future events, of the Fed (US Federal Reserve Bank)'s foundational role as the "lender of last resort" (LLR) underpinning –and underwriting— the US financial system. It represented the first time since Great Depression and WWII that the Fed had been required to assert its presence in the LLR function in a case not directly related to fraud or an isolated event. (Minsky 1986 p. 97)

II. Understanding a "Credit Crunch,"

The 1966 situation gave flower to the term "credit crunch". Owens and Schreft (1993) define it as a phenomenon occurring beyond the cyclical variations in the availability of credit preceding a recession. By their definition a "crunch" for which 1966 presents the classic model as "a period of sharply increased non-price rationing" stating "Our crunches involve a discontinuous increase in the use of credit rationing, beyond the typical around recessions..."; this may be "independent of any change in borrowers risk profiles." This is comparable to Bernanke, Lown and Friedman (1991 p. 207) describing the causes and impacts of the recession of 1990-91, in which they *"define a bank credit crunch as a significant leftward shift in the supply curve for bank loans, holding constant both the safe real interest rate and the quality of potential borrowers".* They further note that this definition is not necessarily limited only to "credit rationing" strictly understood. (Bernanke et al 1991) Classical British political economists and market participants Henry Thornton (1760-1815) (Enquiry 1802) and Walter Bagehot (1826-1877) (Lombard Street, 1873) were among the first to identify and, contraction of the money supply and reduced velocity of circulation in cases of restricted credit, and to advocate for LLR intervention by the Bank of England. Slightly preceding Thornton's writing was that of British merchant banker Sir Francis Baring (1740-1810) (*Observations*, 1797). [1]

Minsky perceived these events as part of an endogenous systemic cyclical pattern within the evolutionary process of societies characterized by finance capitalism. "A panic is the outcome of the very cyclical phase it brings to an end." (1963) His conception is of factors inherent to profit seeking capitalist social relations leading to structural conditions and individual and institutional behaviors characterized as a 'credit crunch'. To his point a crunch occurs following a pattern of weakening balance sheets among banks and other non-bank lenders, following the cyclical and destabilizing processes described foundationally by writers such as, Veblen (1904), Irving Fisher (1933), Keynes (1936) and Schumpeter (1954).[2] Minsky describes these patterns, resulting in financial fragility and instability, in the greatest detail and with the most comprehensive perspective. In "Financial Markets and Instability, 1965-1980" (1981) he uses the term crunch on every page and states "recessions either are triggered by or they soon lead to a threatened breakdown of some significant set of financial markets--*without a crunch no recession takes place*" (p 13) (Gertler, Kiyotaki, and Prestipino 2020) demonstrate that though a crunch typically follows a boom not all booms lead to a crunch.

In Minky's terms a crunch is a case of the market losing "coherence". (Minsky 1980) This may be seen as a loss of function of the "price signal" as was described by (Hayek 1945) Or, the price signal is directing behavior destructive to real economic function, especially investment. The circumstances leading to the crunch, form of "incoherence," is as a reaction to the unknown or unknowable as opposed to that which can be rationally determined and thereby "priced in." It is, in that way, a loss of confidence in the mechanisms which under stable conditions would be the determinates of the price signal. It is helpful to think of the cohesive force embedded in market interactions as a 'weak' force, like gravity--ever present, and keeping us on the earth, but not precluding rocket launches, nuclear explosions or volcanic eruptions.

A crunch occurs in circumstances in which the risks to banking institutions may not be predicted by charting patterns. Instrumental decisions are made to pull back from a potentially distorted, uncertain or collapsing market, in which expectations and actions such as policy directives or industry sentiment operating outside of price mechanisms and interest rates, restrict the credit supply. It is an institutional response involving sociological, psychological, and cultural factors, such as the historical memory of relevant agents. It can be fed by the effects of innovative financial instruments or practices, social changes, global events or transformations. Conditions leading to a crunch may be propelled by exogenous shocks. A crunch is not predictable solely by analysis of the quantifiable

[1] Incidentally Baring was also an influential figure in the foundational finances of the revolutionary and post-revolutionary US. Baring arranged the financing of the Louisiana Purchase.

[2] In the words of Keynes, these are "Those. . . "reject[ing] the idea that the existing economic system is, in any significant sense, self-adjusting."

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aggregate variables. Its effects can be measured, in terms of the availability of credit, liquidity or the "money supply", but its causes include institutional and historical developments not easily reduced to quantitative or formal analysis. A crunch is a change in behaviors on the part of lenders and market participants caused by a shift in expectations characterized by heightened uncertainty and perception of risk. Importantly, it is not, as we see today, predictably respondent to attempts to adjust the "money supply". Minsky writes "Rapid velocity changes [in money circulation] which lead to high- and low-level liquidity traps are associated with significant institutional changes." (Minsky 1969)

This understanding of a crunch is expressed below by current Fed Chair Jerome Powell:

> [F]inancial conditions seem to have tightened—and probably by more than the traditional indexes say, because traditional indexes are focused a lot on rates and equities [prices], and they don't necessarily capture lending conditions. .... there are other measures... bank lending conditions and things like that—they show some more tightening. The question for us, though, is, how significant will that be...? J. Powell March 22, 2023.
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> "Concerns about the economic outlook, credit quality, and funding liquidity could lead banks and other financial institutions to further contract the supply of credit to the economy. A sharp contraction in the availability of credit would drive up the cost of funding for businesses and households, potentially resulting in a slowdown in economic activity." (Fed *Stability Report*, 2023)

Since to 1966 there have been 'crunches', at least once per decade, such as the 1984 collapse of Continental Illinois Bank, and the Savings and Loan crisis of the early 1990's, as well as leading up to and immediately following the 2023 run on SVB.

III. Minsky's Two Priors for a research program

In an unpublished 1985 paper Minsky presented "two priors for a macroeconomic research program", "which requires us to do economics without the crutch of assuming equilibrium." These notes were later published in different form by Minsky with Ferri (1991) Ferri (2019) has continued to develop them into a formal system. The concepts described in this unpublished work were developed in a series of articles from 1980 onward and demonstrated historically—again—soon after--by the 1984 double collapse of Continental Illinois bank. They were expressed in Minsky's 1986 masterwork *Stabilizing an Unstable Economy,* though the specific proposal of the 1985 article does not appear in the 1986 book and may possibly have been written down after, given time for editing print preparation. In this 1985 writing Minsky presented his ideas as two theorems.

The "anti laissez faire" theorem states that the interactions within a complex economic system lead to the endogenous generation of intermittent incoherence. "Smith's insight of genius was to associate processes that yield a *coherent* result in a decentralized market economy with the trading that takes place in a village's market square." (Minsky 1980a) In *Stabilizing,* (1986 p 158) Minsky sets four conditions for a macro-economy to be coherent "prices must accomplish not only the resource allocation and output-rationing functions" but, they must also assure that:

- A net surplus of output is generated,
- "Incomes are imputed to capital assets (i.e., profits)"
- The market prices of capital assets are sufficient to meet their production costs
- Business debt obligations can be fulfilled.

Under conditions of a credit crunch, a deflationary cycle, stagflation, or runaway inflation these conditions cannot be fully met. Intervention ["thwarting" (Minsky 1985)(and Ferri 1992) (Ferri 2019)] on the part of the government becomes necessary to prevent degradation of social conditions. Minsky after Marx ([1894] 1998) Simmel ([1900] 1978), Veblen (1904), Keynes (1936) and others, denied the neoclassical artifice of a separation between the financial and the "real" economy, as well as any related theories purporting to treat money values as a neutral expression of the exchange of goods. Contracts, debt obligations and wages terms are all set in money values, so it is not possible to strip away a "veil" of money to reveal the "real" economy. In Minsky's view the social relations which are financial relations are a part of the production process in what Keynes described as a "monetary production economy." (Keynes 1933)

The **Limitation on Performance theorem** assumes what public welfare theorists call "second best" or what Minsky calls "practical best" conditions. This combines with the dissonance cause by the pursuit of personal gain on

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the part of parties who may possess market power such that the economy may be "moving rapidly away from any well-defined notion of allocation or stabilization efficiency." Yet however *"Incoherence is rarely observed in the economy because the thrust to incoherence is aborted or contained by institutional constraints or policy interventions either automatic or discretionary."* (Minsky 1985) The social cohesion and continuation of productive and necessary economic activity takes place in moments of incohesive crisis in spite of the conditions of finance as either the authorities, or other social forces, --J.P. Morgan or Jamie Dimon for example-- or established practices, correct reorganize or reset the financial and monetary system. Minsky's *Financial Instability Hypothesis* (FIH) (1970) is that the risk tolerance of actors tends to move inversely with the presence of risk, such that stable conditions increase risk tolerance and risky behavior, especially the expansion of leverage secured against rising asset prices in anticipation of increasing income flows, eventually accelerating to conditions which tip over to "incoherence". Sustained market stability is only achieved by means of the continuous minding and management on the part of governmental bodies and institutional ceilings and floors such as may be modeled in a piecewise linear system. If we view an economy as an information system and "the price signal" as the mechanism within by which the wants of individuals and the availability of goods to meet those wants are negotiated, then Minsky's concept of market "incoherence" is a condition occurring when the signal is dislocated from the socially beneficial requirements of production and provision.

Abba Lerner (1941) likened national economic management to a "Steering Wheel." "We need a regulator of employment—a mechanism for the maintenance of prosperity. The instrument that can do this is as readily available as a steering wheel." Minsky tells us that "operating" a national economy, rather, is akin to piloting a submarine in the dark and contested waters. There is no moment when it is cool to lay back with one hand on the wheel. As financialized capitalism grows increasingly complex so with it do the challenges of navigation.

> The likelihood that policy action will result in the economy going to the threshold of a financial crisis increases with the number of markets used for position making, and with the proportion of bank assets bought through the various markets. Thus, as the financial system evolved over the postwar period, the potential for instability of the economy increased. (Minsky 1986 p 86)

IV. Minsky's historical vision.

> [S]ocial conditions become historical "individuals" in historical time. These changes constitute neither a circular process nor pendulum movements about a center. . . . Joseph Schumpeter (1949)

"An Economy is a complex and evolving beast." (Minsky 1957b)

> The changes in the financial structure, including the composition of assets of financial institutions, that have taken place since the end of the Second World War have been such that the likelihood of a financial crisis occurring has been increasing. If this trend, which is the result of a boom powered by private demand, is sustained then the likelihood of a financial crisis being triggered by a routine downturn of income will increase. If financial distress does occur, the efficacy of the various government guarantees, insurance devices, and built-in stabilizers will be tested. Minsky (1960)

Minky's analysis, encapsulated by the FIH [3] and his concept of market "coherence", or incoherence, is related to the tendency of the dependence of market performance on the effectiveness of the state. Minsky's unique and essential voice as a theorist-analyst and critic may be considered what Hegel called an "original historian" a participant witness and a "critical-reflective" chronicler seeking to generalize and derive "laws" from the subject of his studies the 20$^{\text{th}}$ century post war macro-economy (Hegel (1956)(original 1837)

Minsky's cyclical progression from "Hedge", to "Speculative" to "Ponzi" (Minsky 1986) described in versions of the FIH is an historical movement. The safe position creates the conditions for rising risk tolerance leading to increased financial speculation and debt layering. This movement is validated by the apparent prospect of greater returns then leading to the financially fragile Ponzi position in a progression over time. Minsky presented in various works a theory of historical stages. (Wray 2016 pp 37-40) (Minsky 1986 p 77) (Minsky 1992) (Walen, 1999 2012) Though the structure of this theory was never completely codified by him, it fit within his concept of "varieties" of capitalism and connects to the influence of Joseph Schumpeter directly and Marx indirectly on his thinking. Each

[3] Ferri(2019) argues that the FIH is a special case in Minsky's analysis...

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epochal version or "variety" of capitalism has its own dynamics, institutional framework, and social structural constraints.

By 1954 Minsky had dug into an analysis of business cycle dynamics as explored by Goodwin (1950) and Hicks (1950) among others. At this point he recognized the importance of institutional factors necessary for any formal analysis to possess real world relevance as well as the conceptual limits of the patterned formal approach being taken in the analysis of his contemporaries. (Minsky 1954a, 1954b) By the Early 1960's he had sketched out his approach to the cyclical and supra-cyclical nature of capitalist systemic evolution. He had begun to describe the patterns of movement and tendencies toward instability (loss of "coherence") in both formal and institutional terms. In a series of papers published during the height of the "Golden Age" of American capitalism and its immediate aftermath, he pointed to the flaws in what had become the dominant theoretical framework of academic and professional economists. This framework sometimes called the "neo-classical-Keynesian synthesis" epitomized by the work of Paul Samuelson aspired to scientific standing and significant political influence.

Following the Depression and with the publication of the *General Theory* (1936) the professional range of economists expanded. Keynes' book was taken upon as a guide to elevate national economies in times of depression and crisis. Keynes, however, saw the problem with extrapolation of theories of the behavior of individuals and firms drawn either *a priori* from a calculus of rational choice, or derived from empirical studies of occurrences in the historical past, as if these necessarily sum to an aggregate behavior predictive of the future. In Keynes there is implicit recognition of what are now called theories of "*emergence*" [4] and relatedly of the impact of mass social psychology on the outcomes experienced by national economies.

With Keynesian theory, economists might have an answer to every economic situation facing a ruling class. *The General Theory* was presented concurrent to the rise of Stalin's attempts at a command economy, the theoretical expression of which is best discovered in the also historically concurrent writings of Chicago economist and once Minsky professor Oskar Lange. (1936 and 1937) Macro-economics in the early 1960's was rooted on the one hand in formalized theory dependent upon the assumption of a natural tendency of market interactions toward coherent outcomes represented in theory especially by Keynes' American followers, and on the other hand with the rise of theories of control such as that of Lerner (1944) and Lange. Though history had demonstrated the tendency of capitalism toward credit crises and bouts of severe price instability, the apparent conditions in the late 1950's were of stability in the dominant capitalist markets and of growth and development in the "socialist" command economies. Economists thereby, even of the Marxian stripe, who advocated a "planned economy" were imbibed with scientific hubris envisioning themselves as having developed a social technology capable of guiding stable economies toward a bright and productive future.

Keynes, from his first major publication, the philosophical *Treatise on Probability* (1921) had questioned what can be precisely known of the future. Keynes' break with the mechanistic tradition in 19$^{\text{th}}$ century economics was informed by his understanding of risk and uncertainty through to his later work.

> ... facts and expectations were assumed to be given in a definite and calculable form; and risks, of which, tho admitted not much notice was taken, were supposed to be capable of an exact actuarial computation. The calculus of probability, tho mention of it was kept in the background, was supposed to be capable of reducing uncertainty to the same calculable status as that of certainty itself; (Keynes 1937 p.213)

Minsky (1957) reminds us that "the money market ..[is] always changing as a result of institutional innovations" the next financial crisis will not be the same as the last one. "It is too much to expect that a trivial set of operations such as those labeled monetary... or fiscal policy will always succeed in maintaining stability." (p 186, 187)

V. Minky's theory of stages

Minsky analyzed, foretold and characterized the transition between two of the historical phases, "varieties", of capitalism which evolved during his adult life.[5] These were:

Paternalistic managerial welfare state capitalism from the establishment the New Deal, extending through the Second World War includes the post-war "Golden Age". According to Minsky, a "much larger government and an economically activist state which, in the realm of research, infrastructure development, expansion of secondary

[4]"Emergent phenomena are conceptualized as occurring on the macro level..."

[5]Minsky was influenced by Schumpeter, who had popularized N. Kondriatievs "Long Wave" theory...

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education, and military production, played a major role in determining the direction and volume of investment. The weight of the "Big Government" stabilized the economy, mediating risk and sustaining entrepreneurial profit. Government effectively guaranteed profit flows to large corporate interests. Financial speculation was significantly restricted. (Minsky 1992 p 110-11) "The government securities market was the primary position making market" (Minsky 1986 p81) It was at the beginning of this period that the "failed" capitalism of the early 20th century transformed, in Minsky's view, into a relatively successful and apparently sustainable capitalism. In the 1970s this system began a rapid crisis-born evolution toward a different form.

Money Manager Capitalism (MMC) I

> "It may very well be that the more serous instability, from the perspective of economic policy, is the tendency for the economy to explode. . . . The issue may be, whether modern capitalism can stand success, whether policies that effectively constrain high level investment can be developed. . . . . the crunch gave evidence that our financial institutions are still subject to sharp stresses and strains, that institutional factors are still important and that a part of any analysis relevant to policy must deal with. . . institutional arrangements." (Minsky 1967)

In 1974 Minsky told "the margins of safety and decreased markedly over the post war period. . . . one failure can lead to many failures." This year the President Ford negotiated a compromise with lawmakers ending oil price controls as a measure to stimulate production in response to global supply restrictions. During Ford's nomination to the Presidency the overnight interbank rate stood just below a recent peak of 12%. Unemployment was approaching 6% on its way to 9%. The Sticky Price inflation measure (Atlanta Fed from FRED)[6] stood at 10% and GDP growth had been trending negative for most of the past year. The US economy faced its second recession in less than four years, the longest and deepest since the Great Depression. There arose a theory defying phenomenon –one potentially present again today-- of inflation and unemployment moving together rather than in the proscribed countercyclical path fitting the Phillps Curve.

Present day business relations characterized by large concentrations of capital professionally managed by pension, endowment, sovereign wealth, private hedge and other such aggregated funds and the maturation of a market developed for the control of productive firms began take hold in this period. "The independence of operating corporations from the money and financial markets that characterized Managerial Capitalism was thus a transitory stage" (Minsky (1992)

VI. Developments in the 1980's

In 1979 President Carter nominated former Nixon treasury appointee and Chase Manhattan banker, Paul Volker to Chairman of the Fed. His Princeton dissertation had expressed the view that insufficiently firm measures were being taken to combat inflation by means of restriction of the money supply. In 1984 Minsky wrote in a passage which could be dedicated to Volker,

> "Since [1966] our financial markets and demand determining interactions have operated so that rising interest rates, slow down the economy, not by reducing demand [but] by forcing units of significant size into refinancing crisis. Monetary constraint operates by forcing some significant units into, or to the verge of, bankruptcy."

By the 1984 failure of then seventh largest US bank Continental Illinois, Minsky had documented six LLR interventions "In 1966, 1969/70, 1974,75, 1979, and 1984 The [Fed] put on its lender of last resort hat. . . . It did this because "it" believed that without intervention the door would be open to a serious depression." (Minsky 1984) Continental was preceded on its way out by the 1982 collapse of Oklahoma based, Penn Square, one of several regional banks connected to oil drilling to go belly up as oil prices shot up, following the 1979 hostage crisis in Iran, and then moderated, discounting severely the expected returns on drilling. Continental had also exposed itself to oil drillers, who like, real estate developers, necessarily depend upon "Ponzi" financial arrangements at the outset of their ventures. They must borrow to finance principal *and* interest payments in the present upon the expectation of revenues and profits in the future. Success is uncertain, and the value of output is subject to high volatility. Continental was partially dependent on routine short-term lending from Japanese banks. The run began when the Japanese firms refused to roll over the credit lines. Indicative of the impact of instant communication and

[6]This measure purportedly reflects inflation expectations to a higher degree than the baseline measure...

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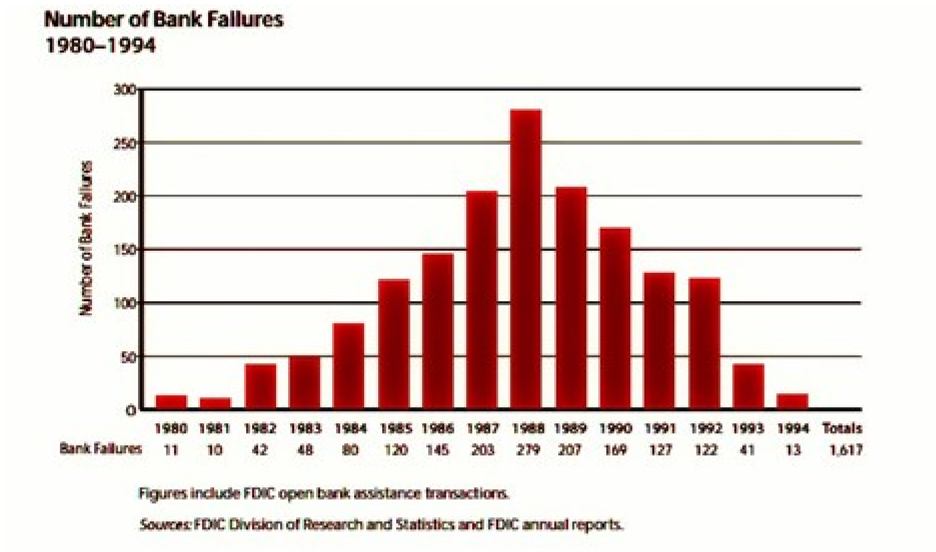

Figure 1

global interconnectedness which had begun to characterize both media reporting and capitalist finance by the mid 1980's, one factor in the run was a slightly missed English to Japanese translation which characterized a rumor in the press as an official disclosure of insolvency. (Henriques, 2017 p 98) The rumor, or its translation, proved to be a self-fulfilling prophesy. By the time the information had been corrected it had sent shockwaves through the US banking system. It was the rescue of Continental Illinois in May 1984 and then its re-rescue in September of the same year which spawned the expression "Too Big to Fail". Indeed, at that time it was the largest intervention on the part of US government agencies, including the Fed, FDIC and coordinated efforts by major private banks since the 1930's.

When Minsky wrote his initial expressions of the FIH and its preliminary work in the late 1950's and early 1960's, the US economy was in its hedge position and his emphasis must have seemed out of place to many. By the time he published *Stabilizing an Unstable Economy* in 1986, the relevance of his theory and observations were undeniable.

The pandemic of bank failures which dominated the 1980s was exacerbated by interest rates held high in an attempt to flush out inflationary expectations. Though inflation may seem to favor debtors, rising interest rates make it harder to roll over short term debt and raise the cost of borrowing potentially pushing borderline debtors into insolvency. Falling inflation and especially flatlining or sub positive price movements increases the burden of debt relative to income. For an economy, as described by Minsky, in which most investment is financed, very large and long running investments are necessary, and contracts are written in money terms, price volatility and concomitant enforced volatility of interest rates are patently destructive.

VII. A theory of historical stages benefitting from longer hindsight.

Minsky's treatment of historical stages is affected by lack of longer hindsight and to a degree by nostalgia for the New Deal and the period of American ascendance. Wray's (2016 p 39) comments that Minsky's stage theory would understand the GFC as a systemic collapse rather than as a progression in a mechanized version of the FIH. To repeat "*the thrust to incoherence is aborted or contained by institutional constraints or policy interventions either automatic or discretionary*." Another way to say this could be to say that moments of radical market incoherence may be connected to institutional transformations such that the price signals fail as the institutions within which their markets are nested become dysfunctional, or when socially embedded thwarting mechanisms fail to function. The crises provide warning to bring about institutional and behavioral change.

We may break up the stages somewhat differently than Minsky or his interpreter and collaborator Whalen (1999) with an eye to the political-economic framework and power relationships of these periods. The first stage then would be the **"Golden Age"** as described by Minsky in the beginning of this paper, which began with US hegemony following WWII and began to lose its luster by 1966. The US emerged from WWII in an enviable position relative to its allies and competitors who had suffered devastation and population dislocations during the war. Confidence in the US economic prospects reigned. The US military was unrivalled. The dollar emerged, as it remains today, the effective reserve currency (Eichengreen and Flandreau, 2008), and became the measure of exchange value for global trade (Bertaut, von Beschwitz, and Curcuru, 2021). Opportunities for profitable investment were bountiful as the capital demands for the rebuilding of Europe and Japan and the retooling of industry in the US were extensive. Wartime technological advances had created the possibilities of new products with rising income levels and expanding market opportunities supporting demand. Returning military service personnel numbering over 10 million, as well as the expansion of the available labor force due to greater efficiency in agriculture, and the incorporation of Black and female workers into the wage-earning labor force maintained an availability of labor for the growth of industry. The character of the political and power structure of the US in the Golden Age is described as “the fifth epoch” of the American “power elite” in C. Wright Mills (1956) classic study.

The conditions on which the “American Century”, was founded, however were eroding from before its start. The colonial arrangements of the 19th century collapsed in succession. By 1958, the US had begun to run occasional negative import-export current accounts balances. The the 1960’s saw anti-colonial and nationalist movements challenge the dominance of the European powers and the neo-colonial empire of the US. By the 1980s most nations had become at least nominally “democratic” sovereign republics. It is in the period of the late 1950’s to early 1960s that the US economy began its trajectory toward the geopolitical-economic institutional role in the global construct that, though under significant stress, and with more powerful competitors, it retains to the time of this writing. This role is characterized by a consumer of last resort relationship to the global product output, military dominance, financial dominance, extraordinary cultural influence, and currency hegemony of the ‘greenback’.

The “Guns and Butter” period, (GBE) follows the Golden Age. It begins with Johnson’s January 1966 State of the Union address, and ends with Bill Clinton and “welfare as we knew it” Reagan, stands in the middle of the Guns and Butter Epoch. The state retained its guiding function through the adoption of many of the social demands of the Civil Rights Movement, and “Great Society” programs. The U.S. Federal Government played a direct interventionist role in the progressive development of social institutions during this period. At the same time the ideology and institutional foundations for **(MMC)** were developed. The American political caste struggled to maintain its global position while making the promise of expanded prosperity and opportunity on par with that of the immediate post war generation. One fulfilled promise of this period has been the increased availability of consumer products, “butter”. Minsky states that Reagan’s tax measures of 1981 “have made government peacetime deficits a permanent or structural feature.” (1986 p. 253) If, as Reagan famously--or infamously depending upon one’s point of view--stated “Government is the problem” then Reagan contributed to the problem.

Contrary to many writers’ representations of the Golden Age and expressed nostalgia for the New Deal, government was smaller relative to population or output when compared to the later periods. The government sector grew necessarily during the GBE in both absolute terms and relative to the US population and economy. Significant growth in the size and role of government had taken place during the Great Depression and World War II years, but growth continued in the period after the 1966 crunch.

VIII. Money Manager Capitalism II

In the words of the science fictional Mr. Spock “Only Nixon could go to China,”[7] So it is in politics that only Reagan could institutionalize deficit spending, and only a Democrat touting humble roots could take the broadest swipe at entitlement programs in two generations and release the money managers into the henhouse codifying the deregulation of the finance industry and breakdown of barriers between commercial and investment banking represented by the 1999 repeal of the “Glass Stegall” Banking Act of 1933.

> The interest of the managers of a modern corporation need not coincide with the permanent interest of the corporation as a going concern; neither does it coincide with the interest which the community at large has in the efficient management of an industrial enterprise. . . . the interest of the managers, and of the owners for the time being, is to so manage the enterprise as to enable them to buy it up or sell out as expeditiously and as advantageously as may be. (Veblen 1904 p. 157)

Minsky understood that though there were varieties of capitalism and epochal shifts in economic regimes, elements of certain forms may arise well before they gain ascendance, and these may also persist. MMC as a

[7] Star Trek Movie VI ostensibly an “old Vulcan proverb”

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regime of accumulation requires not only the financial detachment made possible by the transition from a "money economy" to a "credit economy" as described by Veblen (1904), but also sufficient accumulation of capital, evolution of organizational infrastructure, and technological development, especially in the realm of information storage and communication, for the money managers to assume the position of a dominant caste within the broader capitalist and professional classes and so then the power to reshape governing and legal institutions in their image.

IX. Mature Fiat Capitalism

With the collapse of 2008, Minsky's FIH was thrust into the broader consciousness and the proposition of neo-classical economics, that there is a natural tendency of a market economy to gravitate toward an optimal equilibrium took its greatest blow. The global market has achieved the promise made to it in *The Communist Manifesto*. It has "nestled everywhere and established connections everywhere." By the end of the 20th century commodity relations had come to dominate commerce in nearly all parts of the globe. New industrial concerns rooted in the transformation of communications and computing capacity had produced giant vertically integrated companies with the financial power to rival major banks. Sovereign wealth funds pursue combined economic and political aims by means of huge concentrations of invested capital. Visionary industrial entrepreneurs may take advantage of virtually limitless availability of financial capital providing that they have a grasp of the social mechanisms and connections to open the door to access. Twice in a dozen years –2008 and 2020--the Executive Branch and economic management departments of the US Federal government, including the Fed demonstrated in practice, their capacity for massive intervention and reorganization of the major public, and in many cases private, institutions resting at the commanding heights. quantitative adjustment "QE, QT" measures directly involve the Central Banks in the equities markets. Similar interventions occurred in nearly all of the major global economies.

Yet for the power and capacity there is no sense of sustained economic stability on the horizon. Among other things it seems that incoherence, is promoted when pecuniary avarice, power lust and or benevolent impulses, combined with aggregated market power, override whatever version of the price signal, the "law of value" or the invisible hand and lead off into the woods also ignoring the necessary institutional foundations for a stable and productive society. Beginning with the spring of 2023 the banking system both in the US and in other parts of the world has demonstrated its ongoing vulnerability with collapses of institutions such a Swiss Giant UBS, California's Silicon Valley Bank, real estate and "high net worth" focused First Republic. Already 2024 has seen the near collapse of commercial real estate oriented New York Community Bank, and the resolution of Philadelphia based regional bank Republic First. Once again the threat of stagflation looms.

Cognizance of the continuous requirement to mindfully design and manage and regulate the institutions comprising the financial system is not universally held. Extension then of Minsky's proposed research program remains the macro-economic order of the day. Minsky's influence continues to expand and has been given increasingly thoughtful treatment both within the historically friendly territory of Institutional and Post Keynesian economics as well as having been a major direct influence on Modern Money Theory (Wray 2006, 2016). In recent years New Keynesian DSGE theorists have also attempted to incorporate Minsky's concepts into their work. CE, (Farhi, Werning 2020) and (Phelan, L'Huillier and Weiman, 2023) These latter works tend to focus mechanistically on the phenomenon described in the FIH or to provide solutions within the context of "Macro-prudential regulation"[8] and so to miss the less known Limitation on Performance Theorum and its fundamental institutional implications.

[8]Macroprudential regulation recognizes the continuity of involvement necessary to promote stability...

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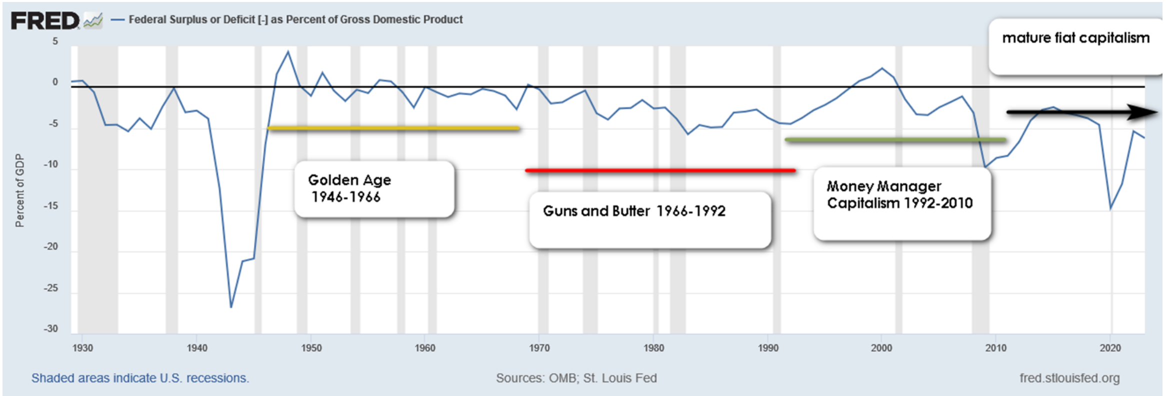

Figure 2

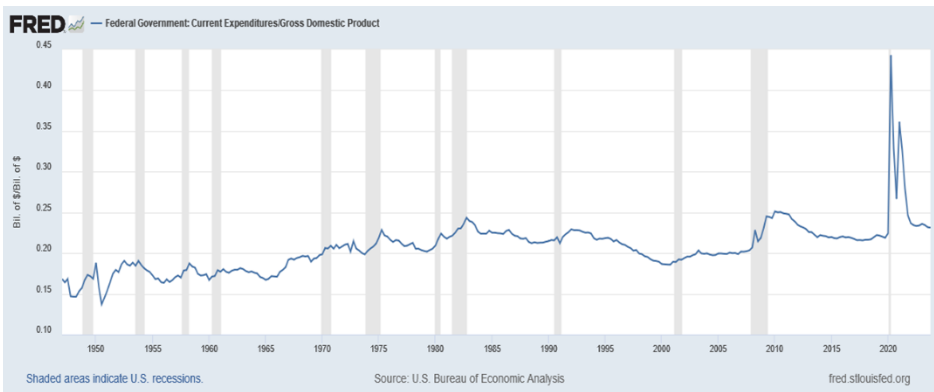

Figure 3: *Federal government expenditure as a share of GDP*

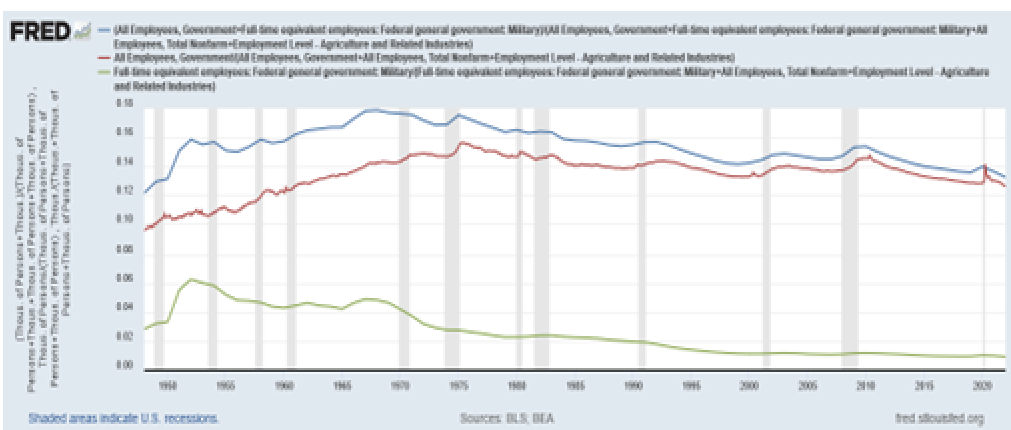

Figure 4: *Government employment relative to total employment*
Lower green line is military employment. Red line is government with military excepted. Upper blue line is combined.

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