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'Why Minsky Matters', by L. Randall Wray

Yes, Minsky does matter! He had an extraordinarily acute understanding of the interactions between banking, and finance more generally, on one side and the real economy on the other. As the author parades Minsky's monetary analysis, partly in well-chosen quotations, I was continuously struck by the freshness, even when several decades have elapsed since his death in 1996, and the originality of his monetary analysis.

Thus Wray writes, (p. 90):-

> Minsky always argued that "anyone can create money" but "the problem lies in getting it accepted." He insisted that banking is not "money lending" – a money lender must first obtain money before making a loan (that is Krugman's view of banks). Whereas most people think that banks sit around and wait for deposits to flow in so that they can make loans, Minsky argued that that is the "money lender's" business, not banking business. Banks, instead, create money as they make loans. That makes a big difference.

Then again, (p. 98):-

> In many of his writings, he emphasized six main points:
>
> 1. A capitalist economy is a financial system;
> 2. Neoclassical (mainstream) economics is not useful because it denies that the financial system matters;
> 3. The financial structure has become much more fragile;
> 4. This fragility makes it likely that stagnation or even a deep depression is possible;
> 5. A stagnant capitalist economy does not promote capital development;
> 6. However, this fragility can be avoided by apt reform of the financial structure in conjunction with apt use of fiscal powers of the government.

Nevertheless despite his many insights, Minsky's work was largely ignored, side-lined, until the onset of the Great Financial Crisis (GFC) demonstrated the validity of his argument that (macroeconomic) stability can, and will, generate (financial) instability. All the three major financial crises of the last hundred years, USA 1929-33, Japan 1991-2000, GFC 2008-9, occurred after a decade of peculiarly successful economic development in the countries involved.

But if Minsky was both a great, original analyst *and* correct, why was he so comprehensively ignored for so long? Partly it was his own fault. He exhibited few, if any, technical abilities. He rarely, if ever, used maths, let alone a mathematical model, nor formal econometrics to establish an empirical claim. Moreover his style of writing was convoluted and sometimes obscure. As Wray notes, (p. ix),

> He had developed his own language that required time and some effort to pierce. One does not "buy an asset" in Minsky-speak, rather one "takes a position in an asset." When one has to sell assets to make payments on debts, this is "selling position to make position." To some extent, this was because he wanted to be precise and had picked up terms from Wall Street, but I suspect that he enjoyed some mystery and notoriety for obscurantism.
>
> He'd give a little wink after offering a pearl of wisdom that he knew was just beyond your grasp.

In several ways Minsky is fortunate in having Wray as an explicator of his ideas, since Randy has felicitously chosen the best and most lucid passages from Minsky's books and papers to clarify 'what he really meant'.

Partly it was because Minsky opposed the central paradigm of recent decades, that the economic system was an inherently self-equilibrating (general equilibrium) system.

Thus Wray notes, (p. 15):-

> By contrast, Minsky argued that the internal dynamics of our modern economy are not equilibrium-seeking. There's no invisible hand operating that way. Furthermore, if we ever did achieve the mainstream's beloved "equilibrium," those internal dynamics would push us away – the system is not stable. And if by some miracle we were to get twice lucky – achieving an *equilibrium* that was *stable* – stability is *destabilizing*.

Moreover, the underlying structure of our economic system, notably the form of markets themselves, with their legal, institutional and technical (e.g. IT) underpinning, is in a constant state of flux. Crises beget regulation; regulation begets avoidance; avoidance, innovation and over-confidence beget crises. Unfortunately, modelling evolutionary disequilibrium is still largely beyond our current technical skills. So we largely remain in the blind alley of self-equilibrating, constant structure, DSGE models with no default and no relevant financial structure.

Minsky was not only a forerunner of much of the current heterodox canon of monetary analysis, he also presaged their other argument, relating to welfare, distribution and labour markets, that the State should act as an Employer of Last Resort (ELR), being always prepared to provide a job for anyone at some minimum wage. Minsky's work on this is, perhaps justifiably, less well known, and Wray has uncovered much more of it, see Chapter 6, where he wrote (p. 111):-

> It is remarkable that his work in this area is virtually unknown. For Minsky, eliminating poverty and joblessness is essential to "stabilizing an unstable economy" (the title of his 1986 book). Focusing only on the financial system while ignoring all of the instability and insecurity associated with poverty and unemployment would be a mistake. Indeed, Minsky argued that "Keynesian" policy of the United States in the 1960s – which had relied on the War on Poverty plus demand stimulus – actually fuels financial instability. By contrast, a jobs program would enhance stability.

I am less persuaded by the calls, by Minsky and his heterodox followers, for an ELR, than by their monetary analysis. They always seem coy about specifying exactly what jobs an ELR might offer, and ignoring the fact that the State already provides many unfilled vacancies in institutions such as the army, healthcare, street sweepers, etc. With the development of robotics, etc., there is, indeed, a problem of how to provide useful employment for under-educated young males with little to offer beyond muscle-power, but just loftily proposing that the State should somehow do this does not strike me as taking a serious issue much further forward.

Whereas I remain in full agreement and admiration for Minsky's monetary analysis, as recorded by Wray, I have some doubts and concerns about Randy's own positions. Let me give some examples. Wray emphasizes that Minsky wanted the Fed to have direct access to commercial banks' books, and so would have preferred the Fed to lend at the discount window, rather than create reserves via open-market operations, (pp 186-7). But such lending still incurs stigma, perhaps more so now as more detail gets reported sooner. What Wray never mentions is that the new regulatory technique of stress-testing provides full access to banking books. Indeed Wray never once refers to stress testing, and is, in my view, unfairly critical of attempts made since 2007-9 to re-regulate the banking system, treating them as insufficient.

Next he extends that over-used, broad portmanteau term, ‘shadow banks’, to include institutions such as pension funds, sovereign wealth funds and money managers more widely, (pp 142/3). The phrase ‘shadow bank’ was so beguiling that users forget that it covers a multitude of dissimilar, though sometimes sinful, entities. The overuse of this term encourages misguided aggregation and sloppy thinking.

Then again, Wray tends to blame the GFC on a combination of prior deregulation and self-seeking bad behaviour amongst bankers, especially investment bankers. While this is a common view, especially but not only among leftists, I believe that it ignores the central determinants of the GFC, to wit an exaggerated, but basically standard, property/credit expansion boom/bust, (see the various papers of Jorda, Schularick and Taylor). In this financial cycle all concerned, the authorities, economists, regulators, private sector borrowers *and* banks together played a contributory role. Just blaming Wall Street is facile and popular, but superficial.

Nevertheless these are minor blemishes in a fine book that successfully brings Minsky’s great contributions to our attention again. If there should be an after-life, one of its purest pleasures for me would be to have the chance to discuss monetary analysis with Hy Minsky for a sizeable chunk of eternity. Wray’s book gives a foretaste of such heavenly interaction.