
4 Minsky in the ‘new’ capitalism: the new clothes of the financial instability hypothesis

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Introduction

Already in March 2007, George Magnus, Senior Economic Advisor of UBS, wrote that the US economy was approaching a ‘Minsky moment’ (Magnus 2007a; see also Magnus 2007b, 2007c, 2007d). The definition was actually coined by Paul McCulley, a bond fund director at Pacific Investment Management Company, during the 1998 Russian crisis (Whalen 2007). Magnus was commented in several financial blogs, and the expression found its way into authoritative newspapers all over the globe. This chapter investigates the meaning of a Minsky moment in the ‘new’ configuration of capitalism since the mid-1990s. Hence we shall, first, give a general outline of Minsky’s thought and his Financial Instability Hypothesis (FIH). Then, we shall clarify what are the true novelties of the current stage of capitalism. Finally, we shall suggest a reading of the latter along the lines of a partially redefined FIH.

The basic core of Minsky’s thought (Bellofiore and Ferri 2001; see also Fazzari and Papadimitriou 1992; Dimsky and Pollin 1994; Papadimitriou and Wray 1998) is centered around three interrelated topics: (1) an interpretation of Keynes’s theory focusing on the role of financial markets, the endogeneity and non-neutrality of money, the systematic uncertainty surrounding the decisions made by units (banks, firms and other financial intermediaries), thereby integrating an investment theory of the business cycle with a financial theory of investment; (2) the FIH, according to which, after a period of ‘tranquil’ growth and robust finance, units’ liability structures tend to shift towards fragility, so that the economic system is prone to financial crises; (3) the thesis according to which discretionary economic policies can smooth cyclical instability, creating ceilings and floors and constraining the dynamic behavior of the economy thanks to the intervention of the central bank as a lender of last resort and of the Government’s budget deficits.

On these bases, Minsky built a cyclical theory of the capitalist economies