Destabilising a stable economy: Minsky in the monetary circuit

Marco Veronese Passarella

University of L'Aquila and University of Leeds

1. Introduction: similarities

- Minsky’s FIH and Graziani’s TMC are broadly complementary approaches
- Starting point: radical critique of foundations of neoclassical economics
- Capitalism = monetary economy of production and exchange
- Money = endogenous flow created by banks in their interaction with firms
- Minsky’s FIH and Graziani’s TMC also depart from standard PKE model…

- What about the differences between them?

2. Goals/levels and units of analysis

- Graziani's TMC: how money is created, injected and destroyed during normal times, that is, regardless of crises and liquidity demand for precautionary motives
- Minsky's FIH: precondition for crises are laid during normal times (periods of tranquillity)

- Graziani's TMC: macro (firms a fully aggregated and consolidate sector)
- Minsky's FIH: micro and micro-macro nexus but…)

- Graziani's TMC: social macro-sectors
- Minsky's FIH: representative firm

3. Different types of analysis

- Graziani's TMC: general (multi) equilibrium analysis
- Minsky's FIH: partial equilibrium analysis

- Graziani's TMC: single-period accounting scheme
- Minsky's FIH: multi-period model

- Graziani's TMC: capitalist mode of production
- Minsky's FIH: financially-sophisticated Anglo-Saxon capitalism

4. Accounting and aggregation

- Graziani's TMC: within-period accounting
- Minsky's FIH: end-of-period accounting

- Graziani's TMC: one good, one price, but…
- Minsky's FIH: (implicitly) two goods, three prices

5. Key references

- Graziani's TMC: pioneered by *Treatise on money* (1930) and 1937-39 essays
- Minsky's FIH: financial re-reading of *General theory* (1936)

- Graziani's TMC: Schumpeter (money), Wicksell, Walras, Marx (cycle of money capital)
- Minsky's FIH: Marshall, Schumpeter (innovation)

6. Money and interest rate

- Graziani's TMC: endogenous flow
- Minsky's FIH: endogenous flow, but…

- Graziani's TMC: horizontal "supply" of money
- Minsky's FIH: supply of money as a "step curve"

- Graziani's TMC: exogenous policy rate allowing the CB to control the market rate of interest
- Minsky's FIH: exogenous policy rate, but endogenous market rate (borrower's and lender's risks)

7. Key financial actor and conditions

- Graziani's TMC: commercial banks (and central bank)
- Minsky's FIH: financial speculators (stock market)

- Graziani's TMC: normal times (money without crisis)
- Minsky's FIH: periods of tranquillity triggering financial instability

8. Prices and role of uncertainty

- Graziani's TMC: demand/supply forces (= costs of production) + interest rate
- Minsky's FIH: costs of production, interest rate (lender's risk) and uncertainty (borrower's risk)

- Graziani's TMC: radical uncertainty does not play a major role (or is even stabilising)
- Minsky's FIH: radical uncertainty plays a major role, especially when everything goes wrong

9. Role of the State

- Graziani's TMC: government sector not included in the basic model
- Minsky's FIH: government sector not included in the basic model, but provides ceilings and floors

- Graziani's TMC: redistribution (not fully effective) and industrial policy
- Minsky's FIH: stabilisation through big government and big central bank

10. Final remarks

- Is a FHI-TMC synthesis possible?

Main references

- Graziani, A. Scambi simultanei e successione ciclica nel processo economico [Simultaneous Transactions and Cyclical Sequence in the Economic Process], Quaderni Piacentini, 1977, 16(64), 113-137.
- Graziani, A. Moneta senza crisi [Money without Crisis], Studi Economici, 1984, 39(3), 3-37.
- Graziani, A. The Monetary Theory of Production, Cambridge, Cambridge University Press, 2003.
- Minsky, H.P. John Maynard Keynes, London, Macmillan, 1976.
- Minsky, H.P. The financial instability hypothesis: an interpretation of Keynes and an alternative to 'standard' theory, Challenge, 1977, March-April, 20-27.
- Minsky, H.P. Stabilizing an unstable economy, New Haven, Yale University Press, 1986.
- Veronese Passarella, M. It is not *la vie en rose*: new insights from Graziani's theory of the monetary circuit, European Journal of Economics and Economic Policies: Intervention, 2022, online (open access).