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The rise and fall of money manager capitalism: a Minskian approach

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Abstract

We are in the midst of a global financial crisis accompanied by a deep and probably long-lasting economic downturn; indeed, some analysts are already calling this the first depression of the post-World War II era. In this article, I argue that this is a systemic crisis—a crisis of what Hyman Minsky called money manager capitalism. I link this to the analyses of Hilferding and Veblen of an earlier period, finance capitalism, and argue that this is, in effect, the second failure of this type of capitalism. The essential characteristics of early finance capitalism are: relatively small government, use of external finance for investment, and growing concentration of economic power in the hands of 'trusts'—or what we might today call megacorporations with varied interests and diverse affiliations across 'industry', 'finance' and 'insurance'. Unlike the first phase, the second phase of finance capitalism took place in the context of a big government, neoconservative model. Minsky's analysis helps us to understand how the New Deal and big government created a paternalistic capitalism after World War II, which favoured high consumption, high employment, greater equality and financial stability; however, that stability was destabilising because it permitted the rise of managed money. Over time, innovation and deregulation increased fragility, which generated increasingly frequent and severe financial crises. While previous crises were resolved quickly enough to prevent 'it' (another debt deflation) from happening again, this crisis appears to be sufficiently severe that the very survival of money manager capitalism is thrown into question. The article examines the contributing factors to the current crisis, including the real estate boom and bust, the rise of risky financial instruments such as securitised debts and credit default swaps, the commodities market bubble and the fiscal squeeze. The article concludes with some suggestions concerning the possible outcome of the failure of this form of finance capitalism.

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