MINSKY, MARX, VEBLEN AND CHICAGO

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At first glance, the title of this session appears absurd. The articles and books written by Hyman Minsky that I've read contain no references to Marx or Veblen. And while he certainly does reference various Chicago (and Harvard) economists as influencing his work, the notion that there is some affinity between Minsky's theoretical orientation and that of Chicago would appear laughable. Yet, I shall argue that the relationship between Minsky and the aforementioned is quite close, and one Chicago economist in particular, Henry Simons, had a markedly similar approach to the cyclical nature of a capitalist economy.

Before proceeding, a caveat is in order: I do not here attempt to develop or evaluate the specific theoretical contributions of Minsky, Marx, or any other economist. Rather, I focus on what Joseph Schumpeter termed "Vision" (1954, 41), the theme of which is taken up by Robert Heilbroner and William Milberg in their *The Crisis of Vision in Modern Economic Thought* (1995) in their criticism of modern neoclassical macroeconomics. Before one undertakes analysis of the phenomena at hand, one must have some pre-analytical perception "that supplies the raw material for the analytic effort." How does one "see" or understand the world, in other words. As well, while it obvious that a theorist does not start *de nova*, that there had to be ideas upon which one builds (or tears down), it is not always clear what those ideas are, nor what their source might be. And, to what extent may the theorist be oblivious to those ideas that preceded her own work? To what extent might ideas "float," in a sense, so that they inform, but are not identifiable as the foundation or work undertaken in a later period? It is these questions with which I want to wrestle, teasing out Marxist and Veblenian understandings, in particular, that inform Minsky's work and to which, then, his own work bears a relation.

Let me first deal with the Chicago connection, then move on to what I consider to be the more important relationship, that to Marx and Veblen. Minsky took his undergraduate degree at the University of Chicago. Chicago in the 1930's and 1940's was not the Chicago we think of today. Then, the economics department was populated by such individuals as Paul Douglas, Oscar Lange, Jacob Viner, Frank Knight, and Henry Simons. While these notables were certainly of a neoclassical persuasion, though Lange was something of an exception—a Marxist who was one of the premier Walrasian general equilibrium theorists of his day—they were a thoughtful group who evidenced several reservations regarding the then-conventional neoclassical framework, Knight in particular. The modern Chicago department was built after WWII, and it was built with a purpose—to organize a faculty and push a program that would "rescue" economics from what was considered unorthodox intrusion and muddled thinking coming from economists we would today consider to be "heterodox." In this regard, the influence of Aaron Director and the

Cowles Commission should be carefully examined in setting the standard for what was to become conventional wisdom in this discipline.

While Minsky was a mathematics major, he was first introduced to economics under the tutelage of these eminent theoreticians. Indeed, he began his graduate training at Chicago before moving to Harvard after military service in WWII. It should be mentioned that Minsky ended his military career in Berlin, working in the Manpower Division of the Military Government. The director of this Division was David Saposs, a labor economist who trained under John R. Commons. Saposs had considerable influence on Minsky's early views. At Harvard, he began his dissertation under Schumpeter, completing it under the direction of Wassily Leontief. Both Schumpeter and Leontief were deviants. Both focused their research in attempting to better understand the workings of a mature capitalist economy; neither were what could be termed neoclassical economists, and most certainly not in the sense that this theoretical structure is understood today. And, while Minsky was Alvin Hansen's teaching assistant, he didn't take much from this early quasi-Keynesian (nor from the other Harvard "Keynesians").

Whom did Minsky himself credit in the development of his own ideas? Obviously, Keynes occupies center state, and it was his *John Maynard Keynes* (1975) that was largely responsible for Minsky's larger reputation, though the development of his financial fragility hypothesis can be traced to the 1957, "Central Banking and Money Market Changes," written while at UC Berkeley. In this paper, and also in his recently published 1954 Ph.D. dissertation, one can see the role played by Schumpeter in Minsky's development with its emphasis on innovation, in particular in the financial sector, and the impact such developments have on liquidity. Somewhat coupled to Keynes's influence is Michal Kalecki's theory of profit determination and the link to the capitalist accumulation process and pricing (Minsky, 1982, 11). Essentially, from Kalecki, Minsky learned that investment determines profits.

At Chicago, Lange was directly influential in his insistence that accumulation and allocation could be treated separately in policy formulation. It was Henry Simons, though, who most likely laid the seeds for Minsky's mature work. (Simons and Lange, along with Schumpeter are credited directly in the first edition of *Stabilizing an Unstable Economy*.) Simons, a classical liberal of major reputation, argued that market structures were of utmost importance in not only determining efficiency in matters of allocation, but also in the ability of public policy to intervene in the economy in an effective manner. Simons rejected the perfectly competitive, hypothetically "ideal" structures imposed by now-conventional neoclassical theorists, insisting on an actual examination of industrial structures in a "real-world" economy. In this real economy, markets wouldn't clear. In his analysis of business fluctuations, he stressed the importance of money and argued that in a boom period, rising expectations would lead to more investment, more borrowing (and lending) which would increase earnings, stimulating more investment, and so on. The accommodating banking system, thus, in obliging the increased demand for borrowed funds, fosters increased private debt that must be serviced out of increased earnings. The system becomes increasingly fragile and should something occur to disrupt this process—say, speculative activity—the boom ends in a bust. (For an account of Simons' argument in comparison to that of Minsky, see Whalen, 1988.)

Coupled to Simons should be Irving Fisher. Not the Fisher of the pre-depression period, which lead to modern monetarism, but the Fisher of the 1933 Econometrica paper, "The Debt-deflation Theory of Great Depressions." In summary, though this paper is more suggestive than analytic, here Fisher not only rejects general equilibrium theory (neoclassicism), but holds that the depression of the 1930's was caused a credit bubble generating increased financial fragility and eventually collapse of the credit-debt system. Quoting Minsky: "The fundamentals of a theory of financial instability can be derived from Keynes's General Theory, Irving Fisher's description of a debt deflation, and the writings of Henry Simons" (2008 [1986], 192). (See Leathers and Raines, 2008 for a recent work that examines Minsky's argument in comparison with Veblen, Fisher, and Schumpeter.)

As stated above, I've found no reference to Marx in Minsky's writing, and certainly there is no mention of any influence emanating from Veblen. It might be noted, however, that Minsky was certainly aware of the affinity between Keynes and John R. Commons with regard to their respective views on money (and other matters), and much of Commons' position was drawn from Veblen's work. (On the Keynes-Commons connection, see Tymoigne, 2003.) And, in private conversation with several individuals in this room, Minsky would speak of his understanding of Marx.

If one examines the work of Marx and Veblen, particularly in regard to their "vision," one finds very strong affinity with Minsky's understanding of a capitalist economic order. The first element in this is their understanding of capitalism as a distinct economic organization that generated its own internal "laws of motion" based on its underlying institutional arrangements.

Neither Marx nor Veblen nor Minsky was attempting to develop theory that was independent of time and space—unlike neoclassical theorists who claim to have discovered universal economic laws that stand apart from or above society itself. Rather, capitalism was not feudalism, was not tribal society, was not slavery. Capitalism requires quite specific sets of characteristics in order to evidence those economic (and social) outcomes that are clearly observable. Why, for example, does capitalism generate cyclical activity? For William Stanley Jevons, the answer lay in sunspot activity. Yet sunspots *are* independent of time and space, thus, all societies throughout history should display evidence of cycles. But they do not. Only capitalism is prone to this phenomenon, so there must be something in the very nature of a capitalist order itself to cause such activity. Thus, "(r)elevant theory is the result of the exercise of imagination and logical powers on observations that are due to experience: it yields propositions about the operation of an actual economy" (Minsky 1996, 358). It should be noted that as neoclassical theorists search for universals (increasingly, based on axiomatic methodology), they *cannot* "see" capitalism as an economy. Indeed, "(i)n the neoclassical school…it is not clear that the economy under analysis is capitalist" (Ibid., 362).

Now, how did our theorists "see" capitalism? Capitalism unfolds through history. Time, therefore, is a necessary element in developing theoretical constructs that assist in our understanding of this form of economic organization. The notion of time in this regard goes beyond that of Keynes who emphasized an uncertain future in which knowledge was simply unattainable, thus, investment was driven by expectations about future profits. For Minsky, as with Marx and Veblen, the system as a whole was passing through and making its own history. Thus, "(t)he task confronting economics today may be characterized as the need to integrate Schumpeter's vision of a resilient intertemporal capitalist process with Keynes's hard insights into the fragility introduced into the capitalist accumulation process by some inescapable properties of capitalist financial structure" (Minsky 1986, 121).

In this historical process, capitalism undergoes changes in its underlying forms of organization. In Marx, the emphasis is on the competitive process coupled to technological change that results in greater concentration and centralization of capital. "It is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals ... Capital grows in one place to a huge mass in a single hand, because it has in another place been lost by many ... The battle of competition is fought by cheapening of commodities. The cheapness of commodities demands, caeteris paribus, on the productiveness of labour, and this again on the scale of production. Therefore, the larger capitals beat the smaller. It will further be remembered that, with the development of the capitalist mode of production, there is an increase in the minimum amount of individual capital necessary to carry on a business under its normal conditions. The smaller capitals, therefore, crowd into spheres of production which Modern Industry has only sporadically or incompletely got hold of. Here competition rages ... It always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, partly vanish" (Marx N.D. [1867], 586-87). As this process unfolds, the financial aspects of capitalism become increasingly important. It is worthwhile to compare Marx's chapter on money in Volume 1 of *Capital* (which I recommend students tear out) with his quite fulsome analysis of the same institution in Volume 3. There, he abandons his earlier position on money as a commodity and examines it as an engine of credit, demonstrating its role and significance in generating increasing instability.

Veblen, of course, was the student par excellence of capitalism in its oligopolistic stage of development and one should read both his 1904 *Theory of Business Enterprise* and the 1923 *Absentee Ownership*. (And, for an understanding of the "real" Veblen, one should read his war essays found in *Essays in Our Changing Order* and, in particular, his *An Inquiry into the Nature of Peace and the Terms of its Perpetuation.*) As with Marx, Veblen shows that economic forces contained in the competitive structures of capitalism, generate outcomes which destroy competition and give rise to large-scale organizations that control output, pricing, and (so-called) markets. In this historical process, the "Captains of Industry" give way to "Captains of Finance." As with Marx, the financial arrangements of capitalism increasingly dominate—the most recent stage labeled the "credit economy"—and Veblen has a great deal to say regarding these arrangements and their consequences for both the economy and larger society. In particular, Veblen emphasizes the manipulation of stock prices to increase the difference between financial capital and industrial capital. (On this, see Wray 2007.)

Minsky is famous for the slogan, "57 varieties of capitalism," but more important is his segmenting of the capitalist economy by its various stages of industrial and financial arrangements and control of these arrangements. "Capitalism is an evolving and dynamic system that has come in many forms and even now different forms coexist." "Commercial capitalism" gives way to "industrial capitalism and wild cat financing" gives way to financial capitalism" gives way to “paternalistic, managerial, and welfare state capitalism” gives way —in the current period—to “money market capitalism” (Minsky 1996, 362). As his stage theory indicates, finance increasingly “rules the roost,” and industry takes a back seat to the ongoing search for monetary profit.

Now, in their respective views on the significance of history, one should mention that Marx, in particular, and Veblen go much further than does Minsky. Minsky confines his theoretical analysis to capitalism, and specifically capitalism in its mature stages of development. Clearly, capitalism is the centerpiece of the work of Marx and Veblen, but our two comparative figures both saw capitalism as a phase of a much longer historic process. Both analyzed primitive communism, slavery, feudalism; both undertook evaluations of the origins of capitalism, and both saw the possibility of socialism arising on developments within the capitalist order itself. There is nothing of this history in Minsky.

Capitalism is unstable, and title of his most important book leaves one in no doubt that this was Minsky’s understanding of the nature of this economy. Initially, what this connotes is that all three of our trinity were non-equilibrium economists. Non-equilibrium is not to be seen as disequilibrium. Disequilibrium means that economists who speak to this possibility hold an equilibrium condition as their standard reference point. Equilibrium outcomes, however, require that certain conditions must be satisfied—perfect competition, complete knowledge of the future, and so on. If these conditions are not satisfied, then disequilibrium results. But such outcomes are not intrinsic to the hypothetical economy under scrutiny—they are “market failures.” Non-equilibrium theory, on the other hand, sees no tendency toward equilibrium, no forces within a real capitalist economy that would generate the putatively optimal outcomes predicted by neoclassical economists as such an economy precludes the possibility of the stated conditions that would generate such outcomes. Hence, the economy is unstable. For Minsky, “…turbulence is normal in a capitalist economy…. (T)he inherent instability of capitalism is due to the way profits depend upon investment, the validation of business debts depends upon profits, and investment depends upon the availability of external financing. Capitalism is unstable because it is a financial and accumulating system with yesterdays, today, and tomorrows (Minsky 2008 [1986], 327).

We do see, however, a difference in Minsky’s account of instability and his emphasis on “financial fragility” that is intrinsic to a capitalist economy and the accounts of Marx and Veblen.

Marx and Veblen were very clear in establishing the links between the real and the monetary aspects of capitalism. (See, Dillard 1987 for a straightforward account.) Indeed, Volume 1 of *Capital*, for all practical purposes, is undertaken solely in real terms. And in that volume, Marx lays out the underlying reasons why capitalism is unstable and these reasons are based on the “anarchy of production,” that is, the individualist nature of investment and production decisions, coupled to the declining rate of profit and capitalists’ efforts to thwart this fundamental tendential law of capitalism. Further, note that the title of Volume 3 is *The Process of Capitalist Production as a Whole*. This is the volume in which Marx integrates his understanding of credit money and the real forces within capitalism. Veblen’s account of the modern “credit economy” (which emerged in the 1870’s, displacing the “money economy”) highlights the dichotomy between the real and the financial subdivisions of the economy. Whereas the money economy pertained to the goods market in the main, the credit economy's focus is on the capital market. Now, pecuniary interests are in the driver's seat and industrial production—that upon which the "social provisioning" process depends—is increasingly sabotaged: the capitalists' objective is to maximize the difference between the value of business capital rather than industrial capital—plant and equipment—and the increase of capitalized values stimulates more credit which further increases capitalized values and further increases the discrepancy between the real value of industrial capital and capitalized value. Speculation, manipulation, and outright fraud all contribute to this growing differential. Eventually, realization sets in that there is no relation between the stated valuation of the corporation and its real value. Credit lines are cut, loans called in, and assets sold. Creditors claim those assets leading to greater concentration, more monopoly power, greater control of output and pricing, and more sabotage of potential output of goods. And coupled to the sabotage of production is the sabotage of employment. More and more of the "underlying population" is deprived of social provisioning.

Now, Minsky is not unmindful of the necessary relationship between the real and the financial sectors of the economy. "A premise of Keynesian modeling is that the capitalist economy cannot be understood by splitting it into a real and a financial or monetary sector. Keynesian modeling holds that a basic aspect of the structure of capitalist economies is given by interrelated balance sheets, income statements, and the time series of a cash flow commitments that are embodied in financial instruments" (Minsky, 1996, 361; See as well, Toporowski 2008 which analyzes Minsky's 1954 Ph.D. dissertation on this and other points).

It is true, however, that in his theoretical explanation of instability, the real sector is given rather short shrift. Finance does appear to be independent of decision-making process in the real sector, and does appear to dominate, if not subsume, real forces in the economy. In the real sector, profits are determined in a Kaleckian framework with a constant mark-up: investment determines profit. Thus, in this sector there appears to be no reduction in the marginal efficiency of investment (profitability) until an expansion in the economy comes to an end. But, how to explain such a contraction? The answer must lie solely in the financial sector. It would appear, then, that Minsky has not integrated the real and the financial sectors as per Marx and Veblen, and this task remains incomplete. (See, Crotty 1986.) Moreover, the ability of non-financial business enterprises to make strategic decisions to advance their profit-making interests is not considered in his accounts (Jo 2010).

Last, we find a difference between Marx and Veblen compared to Minsky with regard to their respective prospects for capitalism. For Marx and Veblen, capitalism would end in either socialism or barbarism—which should be understood as akin to fascism or rule by force. Both called for the eradication of the system. Minsky was a reformist. If one turns to the concluding chapter in *Stabilizing an Unstable Economy*, one will find a good summation of his main notions as to a reasonably adequate reform program for a modern capitalist economy. Without going into details, these reforms are classified under four areas: "Big Government" (size, spending, taxation), employment (and in several papers, Minsky specifically spoke to the need for what some in this room call the Employer of Last Resort program), financial reform, and market power (Minsky 2008 [1986], 328). The main objectives of reform are to reduce inequality, inefficiency, and instability (Ibid., 329).

Minsky did not believe that reforms could ever eliminate instability. As instability is a necessary characteristic of capitalism, one could never eliminate it; the best that could be done would be to contain it. But, if instability is contained in one period, the seeds are laid for a growth in instability in ensuing periods. Thus, constant attention to reforming the economy, including reforming the reforms, is called for. Minsky's closing words in *Stabilizing an Unstable Economy* read: "What is needed is a restructuring of the economy…. Such a restructuring will enjoy only transitory success. After an initial interval, the basic disequilibrating tendencies of capitalist finance will once again push the financial structure to the brink of fragility. When that occurs, a new era of reform will be needed. There is no possibility that we can ever set things right, once and for all; instability, put to rest by one set of reforms will, after time, emerge in a new guise" (Ibid., 370).

In calling for such reforms, Minsky clearly has a more sanguine view of the nature of government in a capitalist society than either Marx or Veblen. For Marx, government was the "executive of the modern state… for managing the common affairs of the whole bourgeoisie." For Veblen, "(r)epresentative government means, chiefly, representation of business interests. The government commonly works in the interest of the business men with a fairly consistent singleness of purpose." And in this difference one sees a different understanding of the nature of capitalist society and a difference in the possibilities of and limits to reform.

Concluding Remarks:

There's no question that Hyman Minsky's approach to the understanding of capitalism—his "vision"—bears a clear similarity to that of Marx and Veblen. There are differences in the details, of course. In most respects, Marx and Veblen go further and deeper that Minsky in drawing out the essentials of this form of economic organization. In the analysis of the financial sector, Minsky not only adds to the work of Marx and Veblen, but is truly innovative in his development of the underlying reasons we observe financial fragility. In one sense, this is to be expected as Minsky is writing during a period in which the financial sector is much more developed than when Marx and Veblen were writing, but it is also true that in order to drive the theory forward one must have a foundation to that theory quite different than conventional economists. Had Minsky remained at Chicago, would he have developed into the Hyman Minsky honored today at this summer school and conference? I doubt that very much.

A lot more remains to be done in integrating Minsky's insights into the financial sector into the production side of the economy. That is one purpose of this gathering. My position is that a more or less complete understanding of modern capitalism cannot be developed independent of the work of Hyman Minsky. I look forward to the time when some young, bright, and dedicated economists will develop theory incorporating the work of Marx, Veblen, Keynes, and Minsky into an organic whole that allows us to better "see" capitalism for what it is, and reach some definitive conclusion as to whether it can be tamed—as Minsky believed—or, as Marx and Veblen proffered, eradicated in the interests of the underlying population.

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