

Minsky and Economic Policy: Safeguarding against instability in capitalist economies

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Minsky and Macroeconomic stability

Outline

Focus on two macroeconomic stabilising goals proposed by Minsky and their relevance for today and beyond

- **Stable prices**
 - monetary policy, financial innovations (securitization) and stability
- **Full employment**
 - ELR programs

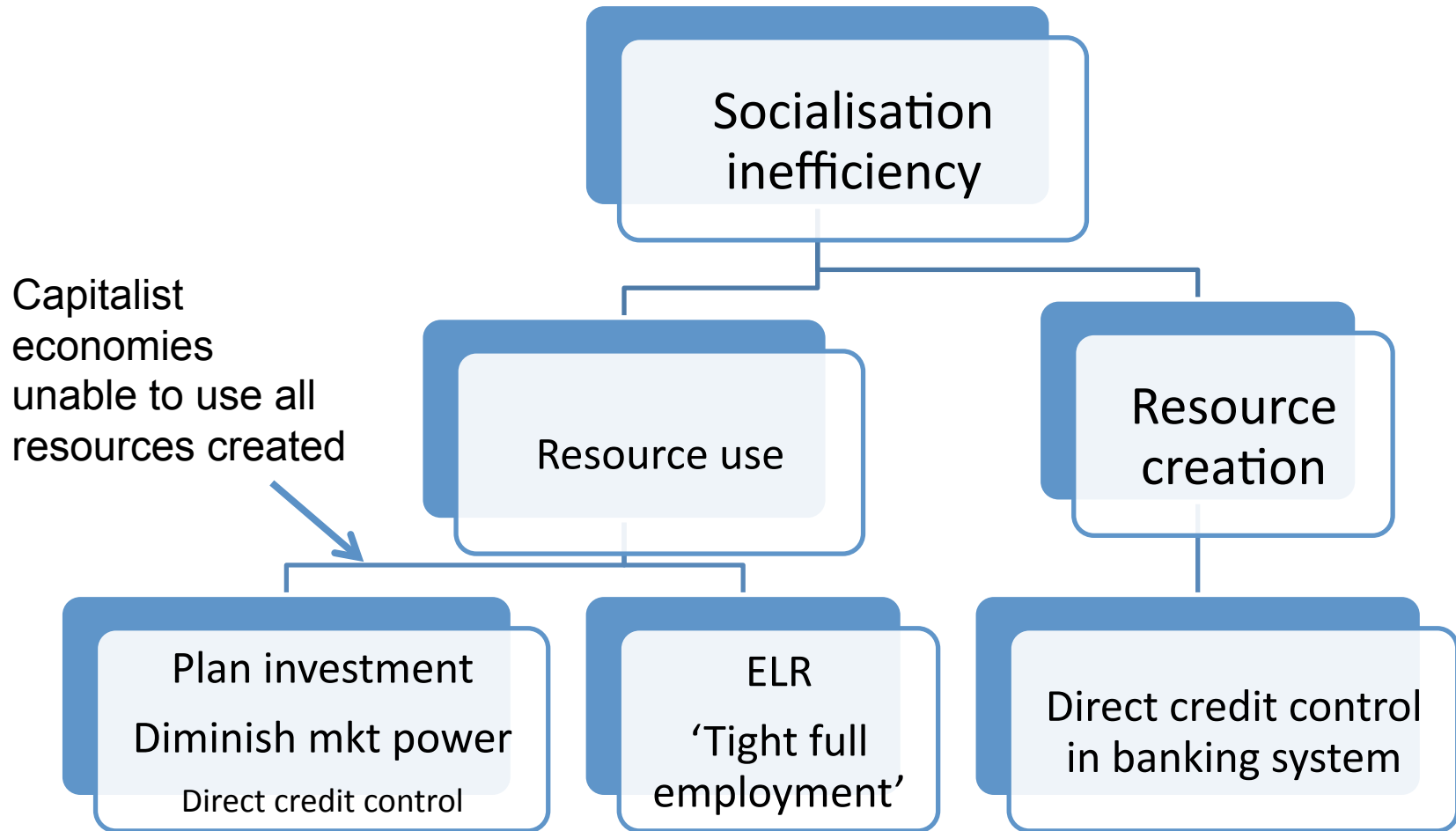
Financial and macroeconomic stability

- **Keynes proposed the use of both monetary policy with fiscal policy to promote stability**
- **Current financial crisis exposed the inadequacies of over reliance on monetary policy since the 1970s.**
- **Blanchard et al. (2010) conceded that macroeconomic policy as they (IIMF and neoliberal policy advocates since 1970s) knew it need a rethink**
- **But Minsky has been calling for such a rethink throughout his work.**

Minsky's stabilising ideas

- **Minsky's FIH showed how unstable financial system can be.**
- **Kalecki's profit equation provide useful insights about how interaction between financial variables and profit expectation can generate instability in capitalist economies.**
- **Minsky argued for Investment to be socialised (socialization of inefficiency)**

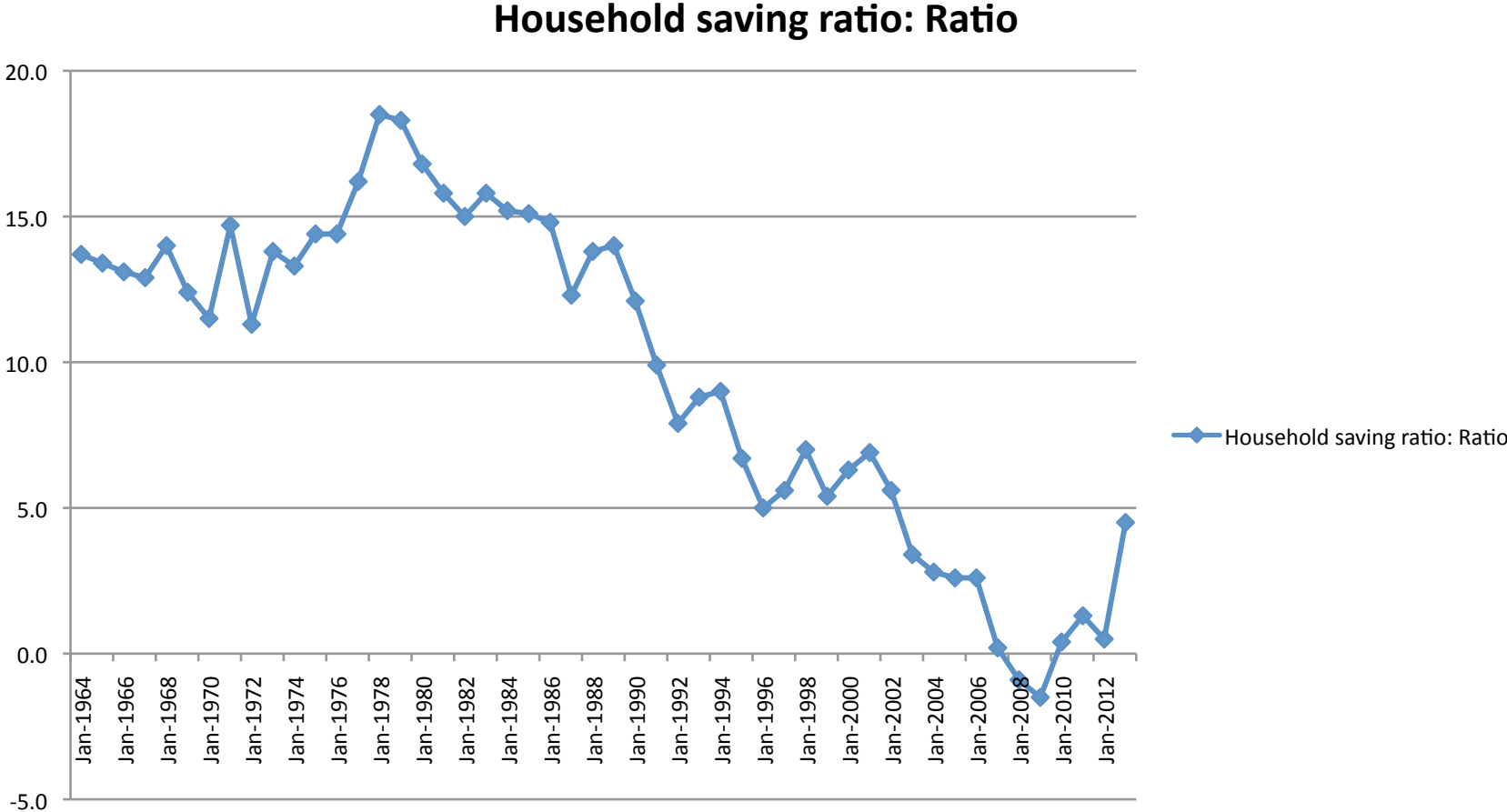
Socialisation of Investment to control instability



Institutions are important

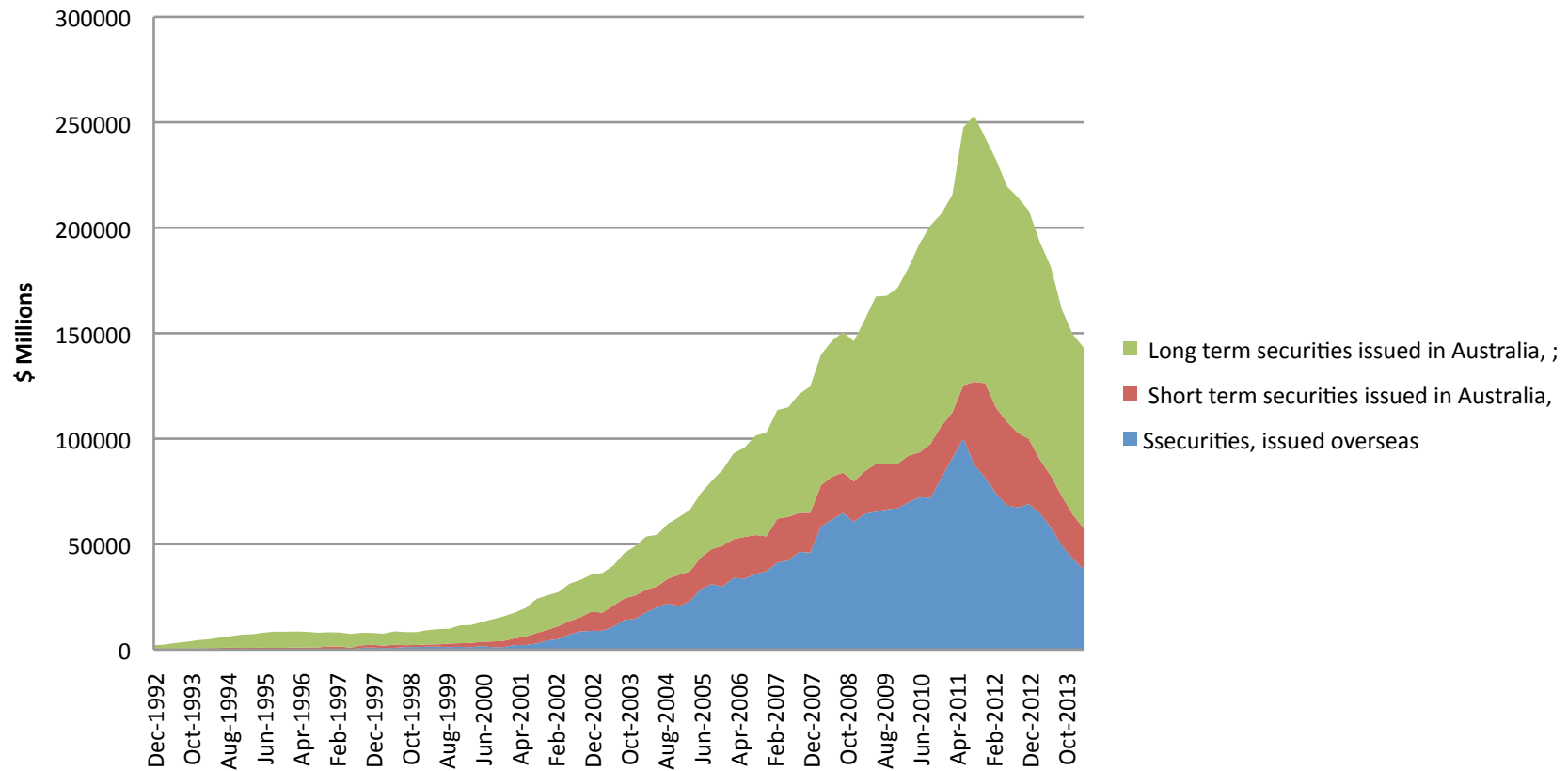
- **Role and sharpness of institutions is important in achieving stability, but focus on stability can lead to instability.**
- **Financial crisis caused by complex web of factors**
 - De-regulation
 - Innovations
 - Reliance on private sector debt to lead growth in the sectoral accounting identity
- **Stability could be fixed through re-regulation and the use of both fiscal and monetary policy**

If $G-T=S-I+(X-M)$, holds and G takes the backstage then something will have to give



Innovations led to securitisation making life easier for both cash strap consumers and bankers wanting leverage, flexibility from reserve requirements

Asset back mortgage securities in Australia



Some qualitative insights from interviews of bank practitioners and supervisors

- **Will regulatory measures such as Basel II reduce arbitrage opportunities associated with risk management [under securitisation]?**
- ***No, it cannot get rid of regulatory arbitrage, especially the existence of securitisation. Securitisation is becoming complicated and diversified. Basel II just has the ability to possibly reduce it, not resolve it (Interview No.4)***

**Vigilance and good institutional arrangement
needed to enforce rules as shown in this
response:**

- ***But I just think that the nature of securitisation market will probably (be) more critical... Lack of securitisation now means that someone within the regulatory space needs to revisit all the securitisation requirements... I think securitisation risk is changing now anyway [Interview 10].***

Good institutions and vigilance needed to enforce rules

- *We are operating under the rules (Basel I), (so) is (there any) incentive to share low risk counting loan?... You (are) going to have a low risk weight, but probably not as low as it should be. You can get capital relief from securitising them (Interview No 15)*

- **In today's globalised world cross border supervision also poses its own challenges to bank supervisors and regulatory authorities. As shown in the following two responses:**
- ***I think it is an issue or lots of banks. For example we a standard bank in the UK and we are an advanced Bank in Australia...FSA requirements are quite basic compared to our requirement here in Australia. But yes, I think that's a material issue for lots of banks to process the relationship (interview No. 11)***

- **Similar response was given by another bank supervisor who has branches in Australia and New Zealand**
- **From the above interviews Basel II will make some impact in reducing arbitrage opportunities but it is not a sufficient to prevent it. Banks will still innovate based on their commercial strategic interests.**

Full employment for stability

- **Governments as employer of last resort (ELR) for full employment**
- Hyman Minsky (1986) argued that governments can stabilize their economy by developing a full employment strategy that creates an infinitely elastic demand for labor at a floor or a minimum wage independent of business profit expectations

Full employment for stability

- **Governments who issue their own sovereign money can use the ELR to achieve full employment and stabilise their economies but why aren't they adopting the ELR?**
- The details of ELR program including its costs, financing, benefits in addition to its stabilising effects have been discussed by Levy scholars including (Forstater 1999,2002, Wray 1998, CoFFEE scholars in Australia (Mitchell and Watts 1997, Mitchell 2000, 2001) and others (Harvey 2003)

Full employment for stability

- **Financing**
 - **The theory of modern money ,Abba Lenner’s Functional finance theory and empirical evidence from post WWII deficit spending showed that it is possible for government’s to take advantage**
- **ELR is non-inflationary –provides anchor for value of money**
- **ERL-better stabiliser of business cycle than income support (works produce and consume)**

Full employment for stability

- **Government can consider bottom up approaches**
 - **Communities, states identify own jobs**
 - **Provision for people to walk into ELR offices to request jobs**
 - **Fed build in incentives for local /state governments to provide jobs (build register of jobs-green jobs, caring jobs, construction, repair, finance skills and trade learning positions, provide supervision to avoid injury and death, etc.**

Long term use of ELR programs builds experience ands minimises fatal mistakes during large scale deployments during downturns in economy.

Conclusion

- **Keynes provided the tools (MP and FP) for more efficient managing the economy towards stability.**
- **Minsky went beyond Keynes and provided insight on the instability of financial systems and how to manage that.**
- **The 'Great recession' has given the opportunity for the world to pause and consider.**
- **Jobs through ELR is non-inflationary, feasible for governments to implement and can stabilise unstable economy**

Conclusion

Will regulations change innovation and financial system behaviour? To a limit

Perhaps economists who support Keynes and Minsky ideas of stabilisation should consider other approaches of reaching government and the public

Persuading philanthropists to start ELR programs

Thank you