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Plutonomy—the AI Edition—and the Coming Crisis

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ABSTRACT

This paper examines the rise of the plutonomy—an economy dominated by the new plutocrats—and compares it with the Gilded Age of the 1920s. We show how John Kenneth Galbraith's analysis in his classic, *The Great Crash*, offers insights into our current predicament. The financing used by the *investment trusts* that pumped up the stock market then looks eerily similar to the *circular finance* used by today's tech firms that dominate the equity market today. The assets held by those trusts were the stocks and debts of other trusts—just as our tech firms owe and own each other today. That ensures that when liquidation of positions begins, a Fisher-type debt deflation dynamic will take hold. Furthermore, just as the economy of the late 1920s relied on the spending of the rich, today's record level of inequality means that the economy must rely excessively on the investment spending of the Magnificent Seven and consumption spending of the millionaires, billionaires, and trillionaires minted by the boom of their share prices. Galbraith explained how FDR's New Deal reconstructed the economy so that its growth relied on mass consumption supported by greater income equality, by reigning-in finance, and by creating a bigger role for government. We warn that government is ill-prepared to deal with the coming financial crisis and we offer alternatives to the strategy adopted to deal with the Global Financial Crisis.

KEYWORDS: The Great Crash; Plutonomy; Artificial Intelligence; Magnificent Seven; financial crisis; Minsky; Money Manager Capitalism

JEL CODES: B15; B25; B26; B52; E12; E32; E44; E62

INTRODUCTION

A 2005 Citigroup memo (Kapur, Macleod, and Singh 2005) addressed to investors described the rise of plutonomies—plutocratic economies in the United States, the United Kingdom, and Canada. Citigroup strategists, who intended the memo as a roadmap for investors on "how to buy stocks," described economies powered by a wealthy minority. Rather than relying on the "average consumer," a plutonomy operates with the wealthiest households driving a significant share of consumption, savings, and asset accumulation. In a plutonomy, the spending habits, consumer confidence, and balance sheets of the bottom 80 percent of the population become unimportant for the fate of the economy that is dominated by the ultra-wealthy.

One of the characteristics of plutonomies is the erosion of the share of national income going to labor. Citigroup strategists noted that the labor share of GDP in the plutonomies had steadily declined since the early 1980s, a trend that has continued since. While this could be a problem if the economy were driven by the wages of the average consumer, in plutonomies there is no such thing as *the* "US consumer"—what matters is that "the rich are getting richer; they dominate spending" (Kapur, Macleod, and Singh 2005, 25). Because the rich derive most of their income from financial assets rather than wages, maintaining aggregate demand in plutonomies requires continuous asset price appreciation. Domestic bubbles attract investments by foreign plutocrats, further boosting prices of the assets of the plutonomies (21). Thus, an important precondition for modern-day plutonomies is the sequence of asset price bubbles, a characteristic of the US economy since at least the 1990s.

Importantly, the wealthy do not have to sell assets to finance spending. Instead, they borrow against their ever-appreciating assets to fuel their lavish lifestyles while avoiding paying much, if any, in taxes since the gains are unrealized. Because the gains do not have to be realized for this process to continue, the sky is the limit as assets are worth what the next buyer is willing to pay for them.

Citigroup strategists recognized that the rise of plutonomy in the US was a return to its original, 1920s *Gilded Age* plutonomy form—that crashed into the Great Depression. The institutions put

in place during the 1930s and World War II—including a progressive taxation system—however, turned the US into a more "egalitarian" society (5). The memo attributed the rise of modern-day plutonomies to "[d]isruptive technology-driven productivity gains, creative financial innovation, [and] capitalist-friendly co-operative governments" among other factors.

Technology, however, is not destiny—and today's plutonomies did not rise "naturally." Instead, they were the result of the dismantling of various New Deal and post-WWII safeguards on finance and corporations broadly speaking, combined with the frequent revisions of the tax code—each one more generous to wealthy asset owners than the previous. For a plutonomy to emerge, the memo's authors argue "society and governments need to be amenable to disproportionately allow/encourage the few to retain that fatter profit share." Thus, we recreated the plutonomies through the trifecta of technology that displaces and outsources labor, financial engineering that keeps the bubbles going and, importantly, governments that greenlit these changes through deregulation, de-supervision and the gradual dismantling of all the other safeguards that had protected us.

The role of government policies in creating plutonomies cannot be overstated. In addition to deregulation and de-supervision, in the neoliberal period that began almost a half-century ago, Western governments abandoned their commitment to full employment, embracing counter-cyclical monetary policy as the solution to the business cycle. Rather than using fiscal policy to maintain tight labor markets, governments relied increasingly on monetary policy for economic stabilization—and, especially, price stabilization.

Since the Volker era, Fed policy was focused like a laser against labor, raising rates whenever labor markets improved—on the argument that rising wages would cause inflation. On the other hand, the Fed always looked favorably on rising profits and asset prices because those supposedly induce investment and productivity increases.[1] Implicitly, the Fed assumed that rising wages do not generate more worker effort, but rising wealth stimulates innovation by the plutocrats.

[1] See Papadimitriou and Wray (1994) for an early exposition and Papadimitriou and Wray (2021) for a more recent recap of the argument.

The sluggish, jobless, recovery from the Global Financial Crisis allowed central banks to keep interest rates very low over a long period—boosting financial asset prices and the wealth of the plutocracy. While low rates do little to stimulate job creation, they are very effective at fueling serial bubbles. When finance-fueled bubbles burst, the Fed steps in swiftly to prevent the plutocratic class from taking big losses on their assets. This combination of a macroeconomic policy framework that favors asset markets, technological disruption, and globalization (also driven by government complicity) led to the weakening of US labor and consequently to a continuous drop in its share of national income.

On the financial side, the safeguards put in place during the New Deal were gradually weakened and dismantled, allowing for the emergence of large banking conglomerates. These universal banks maintained their access to the government's safety net due to their banking charters while being free to engage in speculative finance and shadow banking. The rise of what Hyman P. Minsky called *Money Manager Capitalism* created an insatiable demand for tradeable financial instruments which Wall Street was happy to provide.

Citigroup strategists expected that the "technology revolution, and financial revolution, are likely to continue" (22), a prediction that was prescient given the rise of AI and all sorts of financial "innovations," including especially cryptocurrencies and betting in prediction markets. Thus in 2026 we are faced with the new plutonomy—the AI and cryptocurrency edition. In this economy, the very technology that threatens the jobs and livelihood of the average workers is at the same time fueling a financial bubble that the wealthy rely on for their consumption, bringing us full circle. These are not separate phenomena, but two sides of the same coin, just as the rise of the wealthy and the declining status of the average American worker are not unrelated, but represent the same process. While the working class faces stagnating wages and an uncertain job market, the financial sector is generating massive amounts of paper wealth, further fueling the consumption of the top 1 percent.

It is clear that, left to its own devices, the modern capitalist economy will morph into the most predatory version possible. While there was some hope that the Global Financial Crisis might

have spelled the end of the plutonomy, it has come back with a vengeance. Although Bidenomics tried to tinker around the edges of our plutonomy, it was largely left unscathed. Nothing short of a New Deal–style comprehensive overhaul of our whole system will suffice.

To understand how the contemporary AI-driven plutonomy functions, we must first look backward. The bootstrapping of "fictitious wealth" by today's techno-feudalists and financiers mirrors the financial architecture that precipitated the end of America's original plutonomy. We start this paper by drawing parallels between today's financial machinations and those in the pre–Great Depression US economy, so aptly described by John Kenneth Galbraith ([1954] 1997) in *The Great Crash*. We then explain how FDR's economic policies created the "egalitarian" interlude with the rise of a middle class largely based on good wages. That was replaced by the Money Manager Capitalism described by Hyman P. Minsky, a throwback to the worst excesses of capitalism. Money Manager Capitalism collapsed during the Global Financial Crisis, but was revived by the Federal Reserve setting the stage for today's plutonomy—the AI edition.

1. GALBRAITH AND THE *GREAT CRASH*

> Never before or since have so many become so wondrously, so effortlessly, and so quickly rich…. Perhaps it was worth being poor for a long time to be so rich for just a little while. (Galbraith [1954] 1997, 42)

Galbraith was referring to the run up to the Great Crash of 1929, but he could easily be commenting on the many times bigger speculative bubble that is today minting millionaires by the tens of thousands, billionaires by the thousands, and soon even a pocket full of trillionaires (Cohen 2026).[2]

> "Fifteen years ago, the world's billionaires collectively had $4.5 trillion. By 2024, their wealth had more than tripled to $14.2 trillion. Now, their combined wealth totals $20.1 trillion — an amount that is equivalent to nearly a fifth of the entire world's total yearly output….

[2] Note that Musk's IPO in mid-June pushed him into the trillionaire class and minted many new billionaires. Two of the leading AI firms plan to do IPOs next.

> Their rising wealth, a 40 percent increase in just two years, has coincided with significant changes to US tax laws over the last decade that largely benefited the country's richest families and stockholders and led to an increase in their political influence…
>
> The stock market is where much of the billionaire alchemy happens. Soaring stock profits have been disproportionately captured by the richest sliver…. [I]t's the top 1 percent of Americans who own half of all stock, according to data from the Federal Reserve. The top 0.1 percent of Americans — a group of about 135,000 households — own stocks that total $13.7 trillion. That is nearly double the $7.1 trillion owned by the bottom 90 percent of Americans, a group of about 115 million households."

Similarly, Galbraith ([1954] 1997) wrote that those pre-depression riches were generated by an excess of demand for stocks—no matter how many were issued, euphoric buyers scooped them up. Despite the common misperception that even the average Joes were caught up in the fever, Galbraith estimates that the total participation at the peak of the bubble probably involved fewer than a million buyers,[3] and most of the stocks were hoovered up by investment trusts on both sides of the deals.

A newly formed trust would issue shares to other trusts, using the proceeds to buy shares in still other trusts. Back during the earlier South Sea Bubble, stocks had been issued "[f]or an Undertaking which shall in due time be revealed" but in 1928 they "were undertakings the nature of which was never to be revealed…" (Galbraith [1954] 1997, 49). "During 1928 an estimated 186 investment trusts were organized; by the early months of 1929 they were being promoted at the rate of approximately one each day" with the total volume of securities held valued at over eight billion dollars—11-fold greater than in 1927 (49–50). The trusts were created by investment banks and commercial banks, brokerage firms, securities dealers, and, "most importantly, by other investment trusts" that would retain shares in their offspring to sell at a huge profit.

To generate demand among the general public, manufactured hype came from the business press, economists, financiers, politicians, and even the *Ladies Home Journal* with a headline arguing that "Everybody Ought to be Rich" (Galbraith [1954] 1997, 52). Typically, the "only property of the investment trust was the common and preferred stocks and debentures, mortgages, bonds,

[3] More recently, Christine Romer estimated that only about 2 percent of American households owned stocks at the time (Shiller 2026).

and cash that it owned" (51). In other words, there was no business that would generate revenue to support the price of the stocks issued other than that generated by appreciation of the assets it held—in particular the stocks in other trusts. So, as stock prices generally rose, capital value was boosted through,

> "the wonders of the geometric series" [that led to] "a rush to sponsor investment trusts which would, in turn, sponsor investment trusts. The miracle of leverage, moreover, made this a relatively costless operation to the ultimate man behind all of the trusts. Having launched one trust and retained a share of the common stock, the capital gains from leverage made it relatively easy to swing a second and larger one which enhanced the gains and made possible a third and still bigger trust." (58)

Through the bootstrapping of *circular finance*, the trusts drove each other's stocks ever higher. This, of course, parallels the circular valuation we are witnessing in the tech sector today where Big Tech companies "invest" in AI startups using cloud computing credits rather than cash. These startups then turn around and use those credits to buy services from these Big Tech firms. This circular finance artificially inflates the value of both companies—the startups get to boast of investments by big companies raising their valuation while the investing companies book revenue from their cloud computing business.

Just as today, in the euphoria of the 1920s, naysayers were dismissed as "destructionists" so that "almost without exception, those who expressed concern said subsequently that they did so with fear and trepidation" (Galbraith [1954] 1997, 70). By contrast, "[t]he official optimists were many and articulate" including Bernard Baruch who proclaimed that "the economic condition of the world seems on the verge of a great forward movement" (70). Princeton Professor Lawrence chimed in that "the consensus of judgment of the millions whose valuations function on that admirable market, the Stock Exchange, is that stocks are not at present over-valued." And, of course, no one has forgotten the prediction made by America's foremost economist of the time, Irving Fisher that "Stock prices have reached what looks like a permanently high plateau" immediately before the whole pyramid scam collapsed (70). In spite of the financial collapse that soon followed, Harvard's Economic Society insisted that "a severe depression like that of 1920-21 is outside the range of probability. We are not facing protracted liquidity" (71).

And yet liquidation was mandated by the circular finance: the trustees had invested in each other so a daisy chain of selling out positions to support their own shares meant that "[t]hey bought their own worthless stock. Men have been swindled by other men on many occasions. The autumn of 1929 was, perhaps the first occasion when men succeeded on a large scale in swindling themselves." (Galbraith [1954] 1997, 125)

The values of financial assets crashed, falling by about 85 percent; GDP fell by half; and unemployment reached 25 percent. As Kenneth Boulding later put it, it was amazing that unemployment did not rise to a hundred percent because any employers who retained paid workers were either *fools* or *philanthropists*.[4] Galbraith ([1954] 1997) blamed the crash on *embezzlement* that was largely revealed only with the crash:

> At any given time there exists an inventory of undiscovered embezzlement in—or more precisely not in—the country's businesses and banks. This inventory—it should perhaps be called the bezzle—amounts at any moment to many millions of dollars. It also varies in size with the business cycle. In good times people are relaxed, trusting, and money is plentiful. But even though money is plentiful, there are always many people who need more. Under these circumstances the rate of embezzlement grows, the rate of discovery falls off, and the bezzle increases rapidly. In depression this is reversed…Just as the boom accelerated the rate of growth, so the crash enormously advanced the rate of discovery. (133)

As Bagehot had earlier put it, "Every great crisis reveals the excessive speculations of many houses which no one before suspected" (133). After the fact, the tsunami of bezzles that drove the boom are revealed.

But instead of recognizing and dealing with the bezzles, those who had cheered the excesses blamed the few bears for the crash. The *Wall Street Journal* "complained that 'there has been a lot of short selling, a lot of forced selling, and a lot of selling to make the market look bad'" (Galbraith [1954] 1997, 136). President Hoover, remarkably, adopted what would later be tagged as a Keynesian response, proposing a tax cut to stimulate spending (137). Business executives rallied to put a positive spin on prospects. Yet, from June 1930 through the next presidential election, markets continued to fall, week after week and year after year. By 1932, the value of the investment trusts had fallen near to zero across the board.

[4] Repeated in conversations although perhaps not put in writing.

Galbraith insisted that the collapse was implicit in the speculative frenzy that preceded it. (Galbraith [1954] 1997, 169) He rejected many of the common conjectures about the causes of the collapse—such as excessively easy monetary policy (that then supposedly led to tight policy that made the depression so *great*)—as "obviously nonsense" (169). It was instead, a "pervasive sense of confidence and optimism and conviction that ordinary people were meant to be rich" (169). "Speculation, accordingly, is most likely to break out after a substantial period of prosperity"—but it was a particular kind of prosperity (170). The economy had been growing in the late 1920s, with rising labor productivity but relatively stagnant wages. So growth was driven by investment and rising nonwage income that boosted inequality. The top 5 percent was receiving about a third of all personal income (in the form of interest, dividends, and rent)—twice the percentage of the (early) post WWII period (177). Hence, growth had relied excessively on investment and luxury consumption—so as investment slowed at the end of the 1920s, effective demand was insufficient to maintain growth.

Further, corporate and banking structures had evolved in a manner that created financial fragility. The corporate structure favored grifters, swindlers, and fraudsters, leading to a wave of corporate larceny (Galbraith [1954] 1997, 178). Holding companies and investment trusts "controlled large segments of the utility, railroad, and entertainment business" and used them as cash cows to service the interest payments due on "bonds of upstream holding companies" (178). Furthermore, they were incentivized to cut investment spending in their holdings to pay dividends that would help boost share prices, adding to deflationary pressure. As the economy slowed, they had to cut costs further to service debt. Moreover, the banking structure was decentralized with a large number of independent banks—and as we know from Jimmy Stewart's *It's a Wonderful Life*, rumors about a single bank's solvency would generate a spreading run. There was no FDIC, and the Fed's role at that time did not encourage—or even permit—an aggressive response to stop runs or save banks.

Galbraith also cites the US foreign balance as well as a poor understanding of economics as contributing factors. The US was a net creditor and its foreign debtors needed dollars to service their debts. But Hoover's tariffs—designed to protect domestic production and employment—led

to defaults on the debts, ruining American creditors. It also generated retaliatory tariffs by others that reduced US exports—further depressing effective demand. Despite Hoover's instincts to offer tax relief, the overwhelming view of the time was that government's finance should be "sound"—that is, running a balanced budget. Additionally, worries about the foreign balance as well as the government's budget were reinforced by the gold standard that promoted the view that inflation must be kept low to maintain the dollar's value. Both political parties shared these views, so Roosevelt initially campaigned on a promise to pursue sound finance.

Finally, Galbraith ([1954] 1997), noted the obvious:

> Booms … are not stopped until after they have started. And after they have started the action will always look, as it did to the frightened men at the Federal Reserve Board in February 1929, like a decision in favor of immediate death as against ultimate death. As we have seen, the immediate death not only has the disadvantage of being immediate but of identifying the executioner. (190)

Rational policy-makers will normally choose to postpone the death—as Alan Greenspan did after his valid warning of "irrational exuberance" in *1996* at the *beginning* of the dot.com bubble met with overwhelming vitriol. The Fed learned its lesson and continually denied that there were any bubbles, right up to the collapse of the financial system into the GFC. Every Fed head since has followed Greenspan's lead: no bubbles in sight. Even today, in the biggest financial bubble the world has ever seen, the Fed remains focused on inflation and seems poised to begin rate hikes as we stand on the precipice of a cataclysmic crash.

2. FDR AND THE NEW DEAL ALTERNATIVE TO THE PLUTONOMY

FDR began as a deficit hawk—not surprising for a governor who had to balance the state's budget. As Bruce Bartlett (2021) reported: "In an October 19, 1932 speech, he berated President Herbert Hoover for his deficits and promised economy in government. 'I regard reduction in Federal spending as one of the most important issues of this campaign,' Roosevelt said. 'In my opinion it is the most direct and effective contribution that government can make to business.'"

However, Bartlett (2021) notes that during the campaign, FDR also had adopted the *Hobson-Foster-Catchings* underconsumptionist[5] view:

> [O]ur basic trouble was not an insufficiency of capital. It was an insufficient distribution of buying power coupled with an oversufficient speculation in production. While wages rose in many of our industries, they did not as a whole rise proportionately to the reward to capital, and at the same time the *purchasing power of other great groups of our population was permitted to shrink.* [emphasis added] We accumulated such a superabundance of capital that our great bankers were vying with each other, some of them employing questionable methods, in their efforts to lend this capital at home and abroad….
>
> I believe that we are at the threshold of a fundamental change in our popular economic thought, that in the future we are going to think less about the producer and more about the consumer. Do what we may have to do to inject life into our ailing economic order, we cannot make it endure for long unless we can bring about a wiser, more equitable distribution of the national income. (FDR, as quoted in Barlett 2021)

That fundamental change—of course—would come with Keynes's revolutionary theory of effective demand. In the meantime, FDR confusingly blamed firms for not reducing prices in the face of output outstripping the purchasing power of wages while boosting profits and increasing inequality.[6] In truth, prices and wages did fall—considerably—during the Great Depression which (as Irving Fisher later argued) only made matters *worse* by causing a debt-deflation process as those with nominally-valued debts sold assets to try to cover their positions.

However, FDR did rightly blame concentration of income and market power in a speech given in September. "If the process of concentration goes on at the same rate," he warned, "at the end of another century we shall have all American industry controlled by a dozen corporations, and run by perhaps a hundred men. Put plainly, we are steering a steady course toward economic oligarchy, if we are not there already" (Bartlett 2021).

Bartlett goes on to argue that FDR blamed that concentration of market power for keeping prices up so that only the rich could maintain consumption. Thus, FDR argued that policy should take the form "of distributing wealth and production more equitably, of adapting existing economic

[5] As Bartlett (2021) explains, "William Foster and Waddill Catchings, developed a theory very similar to Hobson's…in their 1928 book, *The Road to Plenty."*

[6] This was aligned with the neoclassical views of the time—especially that of Pigou (Keynes's chosen example of mistaken thinking) who thought the solution to the Depression's unemployment was a sharp reduction of wages.

organizations to the service of the people." In a speech given on October 6, 1932, he proposed to use regulations to impose a more equitable distribution: "It is a proper concern of the government to use wise measures of regulation which will bring this purchasing power back to normal."

Even more interestingly, Bartlett (2021) reports what Mariner Eccles (who would soon take over the Fed) said before the Senate Finance Committee:

> The problem of production has been solved, and we need no further capital accumulation for the present, which could only be utilized in further increasing our productive facilities or extending further foreign credits. We have a complete economic plant able to supply a superabundance of not only all of the necessities of our people, but the comforts and luxuries as well. Our problem, then, becomes one purely of distribution. This can only be brought about by providing purchasing power sufficiently adequate to enable the people to obtain the consumption goods which we, as a nation, are able to produce. The economic system can serve no other purpose and expect to survive.

And in his memoir, Eccles insisted on this critical point:

> As mass production has to be accompanied by mass consumption, mass consumption, in turn, implies a distribution of wealth—not of existing wealth, but of wealth as it is currently produced—to provide men with buying power equal to the amount of goods and services offered by the nation's economic machinery. (Bartlett 2021)

And, in truth, FDR's New Deal did fundamentally *reconstruct* America's capitalist economy along these lines. It is interesting that Keynes (1933) wrote a letter outlining two paths for FDR's administration. The first would focus on *recovery* from the Depression while the second would be to *reform* capitalism. Keynes urged FDR to prioritize the first, but FDR put reform first. The early New Deal spending programs did reverse the economic collapse but ran out of steam by 1937 (in part because FDR's fear of budget deficits returned) and the economy collapsed again. Yet, the New Deal's reforms (plus the much-enhanced position of the USA in the postwar world economy) had a far more lasting impact on the US and the world. It is hard to argue that Keynes was right while FDR was wrong—even though the Depression probably went on longer than necessary.

What were those reforms? In addition to the well-known, largely temporary (but very important) work "relief" programs (an alphabet soup that included the better-known WPA and CCC), they

included permanent reforms of finance—such as the creation of the FDIC to insure and supervise banks and the SEC to regulate securities markets—to prevent another tsunami of bezzles that would create the conditions that would inevitably generate another crash. In his book on that crash of 1929, Galbraith ([1954] 1997), praised the reforms and argued that while there would still be periods of speculative fervor followed by crashes, he believed that the New Deal institutions would be up to the task of constraining the damage:

> A new adventure in stock market speculation sometime in the future followed by another collapse would not have the same effect on the economy as in 1929. Whether it would show the economy to be fundamentally sound or unsound is something, unfortunately, that will not be wholly evident until after the event. There can be no question, however, that many of the points of extreme weakness exposed in 1929 or soon thereafter have since been substantially strengthened. (190-191)

He went on to discuss the reforms: the distribution of income "is no longer quite so lopsided"; "the great investment trust promotions were folded up and put away"; "the SEC, aided by the bankruptcy laws, flattened out the great utility holding company pyramids"; "Federal deposit insurance…has not been given full credit for the revolution that it has worked in the nation's banking structure"; "[t]he problem of the foreign balance is much changed…the United States finds itself with a propensity to buy or spend far more than it sells and receives"; the "farm program provides a measure of security for farm income and therewith for spending by farmers; [u]nemployment compensation accomplishes the same result…for labor"; "the social security system—pensions and public assistance—helps protect the income and consequently the expenditures of yet other segments of the population"; the "tax system is a far better servant of stability than it was in 1929"; and "there has been a modest accretion of economic knowledge." (Galbraith [1954] 1997, 191–2)

With that new knowledge, at the first hint of a developing depression, "We would see an explosion of reassurances and incantation…. Not again would people suppose that the best policy would be—as Secretary Mellon so infelicitously phrased it—to 'liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate'." (Galbraith [1954] 1997, 192)

Galbraith was correct in his assessment: the US enjoyed what is often called its *golden age* (Minsky called it a "practical best"), with strong growth, falling inequality, and the creation of a

broad middle class. As he predicted, economic downturns and financial problems occasionally came along, but the institutional structure set up by the New Deal worked for several decades to ensure that what Minsky would call "it"—a depression with a Fisher-type debt deflation—did not happen again.

We next turn to Minsky's warnings beginning in the late 1950s that the relative stability would generate the return of instability.

3. MINSKY AND THE RISE OF *MONEY MANAGER CAPITALISM: IT CAN HAPPEN AGAIN*

Interestingly, Minsky identified the same New Deal stabilizing institutions that had reformed the American capitalist system (with similar institutions set up in Europe and Japan—in part due to US influence on the postwar restructuring undertaken). Later, in his famous 1986 book (*Stabilizing an Unstable Economy*) he would characterize the reform as relying on the "Big Bank" (central bank for monetary policy very broadly defined) and "Big Government" (treasury for fiscal policy, again broadly defined) for stabilizing the economy and coming to the rescue in recession or financial crisis.

As a result, he argued that the US for the first time enjoyed a quarter of a century without a financial crisis—and the first in 1966 was relatively minor, with problems in the municipal bond market that were quickly resolved with Fed intervention. The first deep recession, accompanied by somewhat worse financial problems, occurred in the early 1970s (fueled by the oil price hike of 1974). After that, growth was slower and less steady, and financial crises became more frequent and severe.

This was precisely what he had predicted in the late 1950s: the relative stability with government backstops would encourage financial adventuring that would increase risks. This was rational behavior—not irrational—because good performance and backstops would reduce the perception of risk. In other words, the evolution of financial practice would appear to be safe because in a

stable economy most bets paid off. It was profitable to create new financial products and practices to escape the New Deal's constraints. And when pushed a bit too far such that the government backstop was needed to prevent losses, market players learned to take that into account—as sort of an insurance against loss provided for free by government.

In 1982, Minsky published a collection of his articles in *Can It Happen Again?* He answered that question as Galbraith would have in the early postwar period: ***no,*** because the New Deal institutions remained sufficiently effective. However, by the end of the 1980s—after the deep Reagan recession and the severe Savings&Loan crisis of the early-to-mid 1980s—he had second thoughts. Those New Deal constraints had been eroded by the deregulations that began in the mid-1960s and accelerated under Reagan, by financial innovations that exploded in the 1980s, and by the turn of both parties toward a neoliberal free market stance. In addition, the US had lost much of its advantage in industry, turning it into a net importer—with job losses and slower sustained rates of growth (as well as worries about the dollar exchange rate). Median real wages had stopped growing in 1974, and inequality began to rise. The problem of effective demand (or, underconsumption) that had been faced in the late 1920s seemed to return. By the early 1990s, many characterized the US economy as struggling with "secular stagnation" or even a "silent depression."

Finally, and most importantly, finance played a much bigger role in the economy—so much so that Minsky argued we had entered a new phase of capitalism that he called *Money Manager Capitalism*. In many respects, he argued, it was similar to that of the period from the 1890s to 1930, often called Finance Capitalism. The New Deal had replaced Finance Capitalism with a new, much more stable form that Minsky called *Managerial (Welfare State) Capitalism*—in which finance had been downsized and tamed. However, the relative stability, the financial innovations, and the deregulation had together allowed finance to assume greater importance. Eventually, finance became the "tail" that wags the "dog" of our economy. By the time of the Global Financial Crisis, the financial sector was taking 40 percent of corporate profits and accounting for 20 percent of value added.

The financial practices that led to the GFC looked something like those that Galbraith had identified as contributing to the Great Crash. While the big investment banks had been throttled by the New Deal constraints, they gradually found ways around them with government responding largely by reducing regulations—including the eventual elimination of the Glass-Steagall Act's separation of investment banking from commercial banking. Instead of the 1920s investment trusts we got *Bank Holding Companies* that would have a number of arms as well as off-balance-sheet entities (known as *special purpose vehicles*) supposedly separated from their sponsors by "Chinese walls" that turned out to be "bamboo" when the crisis hit.

We will not go into all the gory details, but the main risky innovations that brought down the financial system were the "tranching" of low quality asset–backed securities (the best-known were the mortgage securities that were sliced and diced to produce a range of assets with ratings from triple A to junk), credit default swaps (that allowed placement of bets on failure of securitized assets), over-valued IPOs of dot.com firms with little prospect of ever making a profit, and leveraged buy-outs that stripped any assets with value and left hulking remains with no way to service the debt. These activities closely mirrored what Galbraith ([1954] 1997) had described—indeed, his chapter entitled *In Goldman Sachs We Trust* almost reads like a roadmap to the behavior of the investment banks in the 2000s.

Money Manager Capitalism crashed into the Global Financial Crisis in the second half of the 2000s—and like the Great Crash, it looked like the logical result would be another debt deflation-driven depression. But that did not happen. While recovery was slow, most of the big financial institutions survived. Though unemployment rose, it never approached the levels seen in the 1930s. GDP growth took a hit, but growth soon resumed, albeit at a slower pace than during the boom. The housing sector was hit hard, and while very little new housing was built over the next decade, housing prices eventually recovered and began to rise again.

In short, "it" did not happen *again*. Why not? The Big Government and the Big Bank successfully constrained the damage. While discretionary fiscal relief was limited to just $800 billion, the pro-cyclical tax system worked properly, taking far less income out of the economy (revenue falls quickly when income stops growing). The Fed carried most of the load in rescuing

the financial system—spending and lending a total of more than $29 trillion to save not only the US financial institutions but also the largely dollarized financial system outside the US by lending to foreign financial institutions and central banks.[7]

Unlike the case in the 1930s, when FDR had to declare a "bank holiday," shutting down the banking system to determine which banks could be reopened and then putting in place very restrictive measures to ensure that a safe and sound financial system would emerge—this time around, the rescue imposed very few constraints on the survivors.[8] While Congress talked about re-regulation, in truth the main legislation (Dodd-Frank) did not come close to the New Deal's reconstruction of finance.

To be sure, banking behavior became more cautious because of the crisis. *For a while*.

4. THE NEW PLUTONOMY AND THE AI *BEZZLE*

The Global Financial Crisis was an indictment of our economic model that is based on the consumption by the wealthy and asset price bubbles while the rest of America tried to keep up by going into massive debt.[9] At the same time, it presented a fork in the road. Would we choose a *new* New Deal (perhaps based on saving the planet—a Green New Deal)[10] or would we go back to business as usual? It is, of course, clear which path we chose. The policy response imposed few costs or constraints on Wall Street and the plutocrats. Rather, they were bailed out, leaving the plutocratic class unscathed with no serious consequences to their wealth and status.[11] As

[7] See Wray (2011) for a short summary.
[8] Smaller banks were allowed to fail or were merged to increase concentration of market power. With the FDIC's guarantees (which were expanded to money market funds), depositors were protected—preventing bank runs.
[9] As Greenspan admitted in a *mea culpa* before Congress, he couldn't foresee the GFC because his free-market ideology had failed him: "I have found a flaw. I don't know how significant or permanent it is. But I have been very distressed by that fact." Henry Waxman grilled him: "In other words, you found that your view of the world, your ideology, was not right, it was not working." Greenspan responded: "Absolutely, precisely. You know, that's precisely the reason I was shocked, because I have been going for 40 years or more with very considerable evidence that it was working exceptionally well" (Leonhardt 2008).
[10] See Wray and Nersisyan (2020).
[11] The funniest and best account of the bail-outs of the rich came from Matt Taibbi (2011). For a more academic account, see the series of research reports at the Levy Institute: https://www.levyinstitute.org/publications/reforming-the-feds-policy-response-in-the-era-of-shadow-banking/.

Minsky's *Big Bank* stepped in to prevent asset price deflation, the *Big Government* that was supposed to support Main Street was nowhere to be found. Indeed, many American households struggled with long-term unemployment, loss of their homes and mountains of debt they had to dig themselves out of.

While the Great Depression had wiped out a large swath of plutocrats, the policy response to the GFC set the stage for the emergence of the *AI and Cryptocurrency Edition* of the plutonomy. Just as the 1920s investment trusts engineered a *bezzle* of investment trusts, the post-GFC era has manufactured an "AI Bezzle" where the promise of future productivity gains is financialized and is subsidizing the lavish lifestyles of the rich and famous, while the technology driving it threatens to permanently disenfranchise American workers—even as its energy and water demands contribute to an affordability crisis as well as an impending climate catastrophe.

AI's Triple Witching and Its Impact on Wealth and Income Inequality

Meanwhile, the AI euphoria is culminating in a "Triple Witching" event: the simultaneous, highly anticipated 2026 IPOs of SpaceX, OpenAI, and Anthropic. While tech insiders like Databricks CEO Ali Ghodsi warn that 2026 is "a terrible year to go public,"[12] for the AI Bezzle to continue, new money needs to keep flowing into this Ponzi scheme.

To this end, the rules were relaxed to allow institutional and retail investors to participate in these mega-IPOs, keeping the asset bubble going. Traditionally, inclusion into the coveted Nasdaq-100 required a security to be publicly listed for at least three months and required a minimum of 10 percent of the stock to be publicly floated. However, in May this year, Nasdaq erased these safeguards creating a "fast entry" track for any newly listed stock that ranks in the top 40 by market capitalization after just 15 trading days. Based on the new rules, the first to go public, Space X, can be included in Nasdaq 100 after a short period of trading despite the company floating only around 4 percent of its shares (Warr 2026; Wang 2026).

[12] *DealBook* newsletter June 9, 2026: https://www.nytimes.com/2026/06/09/business/dealbook/openai-ipo-spacex-anthropic.html

The fast-track inclusion into stock indices matters because passive index funds become automatic buyers. Since an index fund is supposed to mirror the composition of the benchmark, Space X's entry into an index ensures a massive wave of what can be viewed as forced buying. That means that worker's pensions will be exposed to the AI bezzles whether they want that or not. Meanwhile, Fidelity changed the rules to allow anyone with just $2,000 in their brokerage account to buy into the SpaceX IPO, while previously an investor would need to have closer to half a million in assets to be able to do so. Their rationale was that SpaceX was offering up to 30 percent of its shares at the IPO price to retail investors as opposed to the typical 5–10 percent.

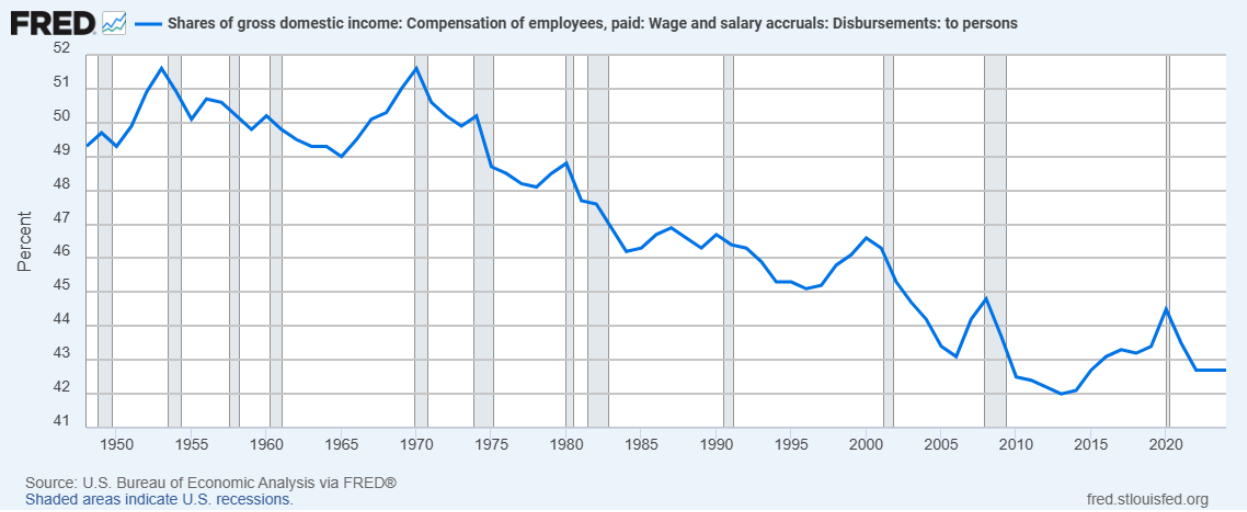
Much like the subprime mortgage-backed securities of the 2000s or the investment trusts of the 1920s, these IPOs represent the worst excesses of financial capitalism. We are once again in the realm of Keynes' beauty contest as each "investor" is trying to predict not the fundamental value of the stocks and their long-term prospects, but what the next person would be willing to pay for them. In times like this, Wall Street usually pumps the stock, taking profits at the top and leaving retail investors holding the bag.

It is not surprising, therefore, that the SpaceX stock shot up about 30 percent just three hours after the stock began trading. With all the hype manufactured to boost Musk's IPO, the results exceeded expectations and SpaceX's stock price continued to rise by over 40 percent in the first three days after the initial offering.[13] However, profit-taking then set in and by the last week of June, Musk's stocks had fallen by 20 percent (losing $600 billion, although they were still above the original IPO price) and the tech sector was falling in US markets as well as abroad (Wakabayashi, Karaian, and Soni 2026). This does not bode well for the next two mega IPOs.

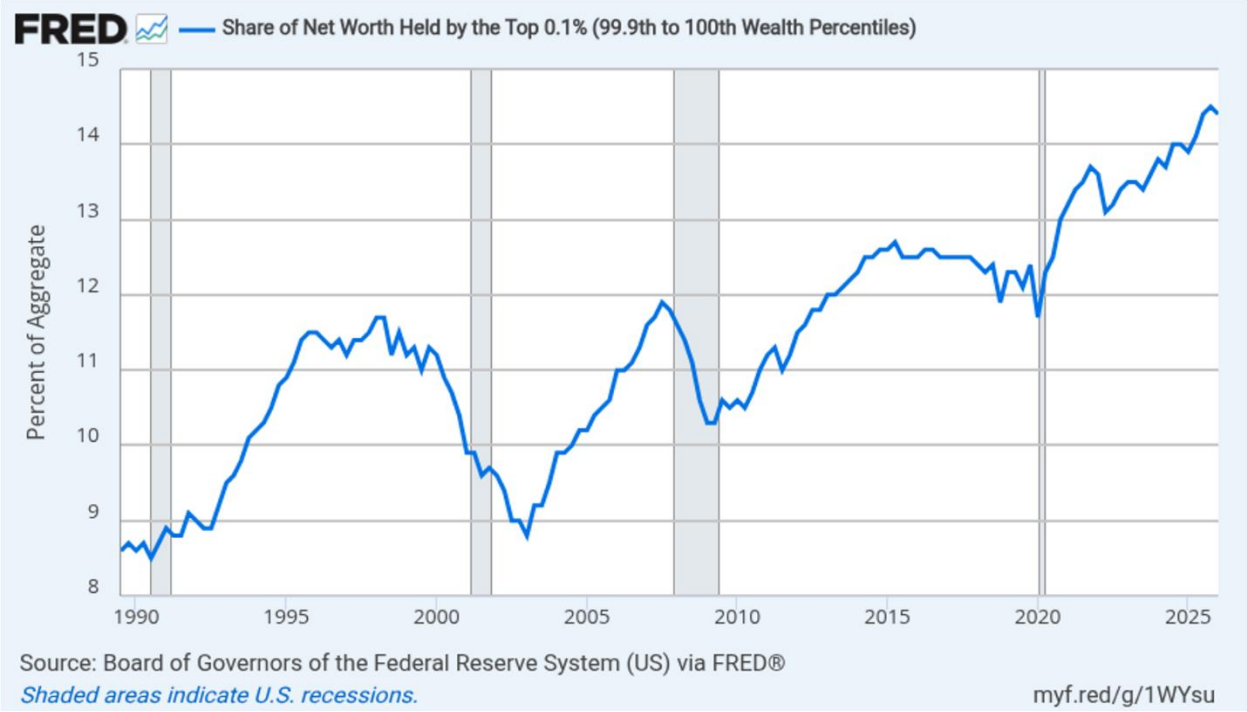
While the obscene levels of income and wealth inequality leading up to the GFC created some political backlash, the situation has only gotten worse since. Labor's share of national income

[13] On June 27, "SpaceX shares declined for the first time since its record initial public offering, snapping a three-day rally that had reached nearly 50 percent. Shares of Elon Musk's rocket and AI firm fell about 5 percent after a volatile session that saw the stock initially gain as much as 6 percent before reversing." https://www.bloomberg.com/news/articles/2026-06-17/spacex-heads-toward-fourth-day-of-gains-since-record-ip "The decline dragged SpaceX back below Amazon in value, making it the sixth-largest company in the world with a market capitalization of about $2.5 trillion. Still, the shares are more than 42 percent above their $135 IPO price, and the number of billionaires they've made is still being tabulated." https://www.bloomberg.com/news/articles/2026-06-16/musk-backer-gracias-reaches-24-4-billion-net-worth-on-spacex

has continued its steady decline: from about 52 percent in the early postwar period to less than 43 percent today. That is right: our labor force—the majority of income earners—receives less than half of national income. This depresses normal consumption which also depresses production and employment—a situation similar to what FDR had found in 1932.



By some measures, inequality in the US is the highest it has ever been—higher than what was seen in the gilded age before the Great Depression. As the following graph shows, the top tenth of one percent have about 14.5 percent of the nation's wealth. With wages relatively stagnant, economic growth relies on spending by those who receive profits, interest, and rents, and by those who book no income (to avoid income tax) but reap the benefits of capital gains without incurring taxes by borrowing against them rather than realizing them. That is how the Plutonomy benefits from rising asset prices—and our economy has never relied more on the Plutonomy to keep it pumping along.



The problem is that this is inherently a fragile base on which to build an economy. What goes up can come down. *Quickly*. Traders have long been using algorithms and that might account for 60 percent of trading today. A growing fraction of that is now controlled by AI that can quickly process huge volumes of data. The AI agents have access to more or less the same data, so the agents tend to offer the same moves—amplifying volatility: "where what might have been a one or two percent move is now a five or six percent move. They're all trading on the same data in the same direction at the same time" (Ramberg 2026).

Financing Practices

As in previous bubbles, the AI boom is supported by "innovative" finance. The private credit industry has become an important lender to the technology sector—software companies, in particular—by both directly lending to them, but also lending to private equity companies that are buying out software companies. More recently they have moved into the AI sector, funding a significant portion of data center build out.

Private credit funds have filled the gap left by traditional banks as the latter became subject to stricter capital regulations after the Global Financial Crisis: banks now have to hold more capital if they make loans to companies with high debt loads and insufficient earnings—which is the case with many technology startup companies. This makes bank lending uncompetitive because private credit funds do not face similar requirements. Moreover, private credit is able to offer innovations in risky financial products, such as payment-in-kind (PIK) options for loans that allow the borrower to recapitalize interest, i.e., add it to the principal. This is what Minsky called *Ponzi finance*—that he saw as ultimately unsustainable unless the financial position of the debtor somehow improves. That is because the outstanding debt grows at a rate compounded by the interest rate. According to Minsky, a growing share of Ponzi finance is indicative of rising financial fragility and an impending crisis.

Private credit funds raise their own funding by selling shares and bonds. Originally, their main investors were wealthy and institutional investors. But in recent years, they have branched out to attract even retail investors. Business Development Companies (BDC) are essentially the private credit equivalent of a Real Estate Investment Trust (REIT)—and they are required to distribute 90 percent of their profits to their shareholders. Some of these funds are exchange-traded, which means even a retail investor with $20 can buy a share. Others that are not exchange-traded require higher investment amounts, from $2,500 to $10,000. But even if individual investors may not be directly invested in these funds, there is a good chance that anyone with a 401k will have a piece of this market.

Some of the practices of these private credit markets echo those in the housing market leading up to the Global Financial Crisis. One such practice that stands out is the *originate to distribute model* using Collateralized Loan Obligations (CLOs) in which the fund originates loans and then pools them together to issue securities with different risk/return profiles. It then sells the higher-rated tranches to institutional investors such as pension funds and insurance companies. It must keep some skin in the game, so it usually ends up keeping the riskiest, lowest-rated equity tranche, which means the fund's equity investors are the ones holding that risk.

Interestingly, as private credit is investing in AI, AI's coding ability threatens the software sector in which private credit is so heavily invested. Thus, the fragility of their position stems not only from their own investments in data center buildout, but from potential disruptions to other assets that form an important part of their portfolios.

These funds serve a purpose similar to that of the investment trusts Galbraith wrote about—distributing risks throughout the financial system. Even as it superficially seems that banks have been disintermediated out of this process, in reality banks are important lenders to the private credit funds (as are pension funds and university endowments). This is also similar to how banks were closely intertwined with the shadow banking system leading up to the Global Financial crisis (Nersisyan 2015; Nersisyan and Wray 2010). While the crisis began in the shadow banking system, it quickly spread throughout the—supposedly—regulated and protected banking system.

This meant that the Federal Reserve had to bail out the whole shadow banking system to be able to protect the regulated banks (Nersisyan 2015). Similarly, although the private credit industry does not have access to the Fed's lender of last resort facilities, its access to banks' lines of credit provides *de facto* access to the Fed's discount window intermediated by banks. Hence, even if capital requirements are preventing banks from lending directly to tech firms, they are still involved indirectly through their credit lines and guarantees.

Finally, there is the crypto threat and so-called prediction markets. Despite the growing risks to the banking sector—and to pension funds and other managed money—there is strong pressure on regulators to allow a wider range of financial institutions to get into crypto "assets" such as those hawked by President Trump and his family. While many crypto frauds have already gone bust, those that have survived so far are in a funk. By early June 2026, Bitcoin was down by 50 percent from its October peak—losing $1.2 trillion—while the second biggest crypto, Ethereum, was down by 64 percent. As Wolf Richter (2026) reported:

> The crypto market cap index by CoinMarketCap, which tracks all major cryptos, has plunged by $2.08 trillion since October. Over $2 trillion in value, expressed in despised worthless fiat, gone up in smoke. And yet, outside of the crypto world, there haven't been any significant ripples. On the other side of the equation are the massive gains these cryptos produced until their highs last year. Betting early on these cryptos was among the winningest bets of all time. Bitcoin went from zero to

> a market value of $2.5 trillion over the span of about 16 years, without ever having to produce any kind of product or service, revenues or profits, or even financial statements, or walk befuddled analysts through an earnings call or whatever.

A trillion here, two trillion there. As P.T. Barnum reportedly remarked, *there's a sucker born every minute*, and that adds up to big numbers. Yes, what goes up *can come down*.

How Plutocrats Maintain Control Over the Plutonomy

Before we finish this section, it is important to understand how the plutocrats ensure that the tech firms they founded continue to operate to funnel wealth to founders after they go public. The *New York Time's DealBook* newsletter[14] offered a revealing piece on June 26, less than a week after Musk's (so far) successful IPO. The founders maintain control in two ways—by keeping a huge portion of the shares and by creating different classes of shares. For example, in Musk's IPO,

> SpaceX listed its shares on the Nasdaq with two tiers of stock: A-class shares, which are available to the public and carry one vote at the company's annual general meeting; and B-class shares, which carry 10 times the voting power and are held by its founder and chief executive, Elon Musk, and a small group of insiders.

Musk retains ownership of 40 percent of the shares and gets 80 percent of the votes. It is not too difficult to see whose interests are going to dominate in SpaceX's future decision-making. As *DealBook* reports, other tech companies have similar arrangements:

- Meta's founder, **Mark Zuckerberg**, owns about 13 percent of the company's shares but controls roughly 60 percent of votes.
- Google's founders, **Larry Page** and **Sergey Brin**, together own about 10 percent of Alphabet but control more than 50 percent of votes.

Concentration of power in the hands of the plutocrats will be promoted by a race-to-the-bottom competition by states to headquarter the tech firms. Texas has long been a winner in loosening constraints on financial institutions—which is why it acts as an early warning signal before financial crises hit—such as the Saving&Loan debacle of the 1980s. No wonder, then, that when

[14] https://www.nytimes.com/2026/06/26/business/dealbook/ai-openai-ipo-slump.html

Delaware balked at Musk's outsized pay package, he moved SpaceX to a more accommodating environment in Texas:

> SpaceX's corporate home state has a decidedly pro-management approach to corporate law that has shifted power from shareholders to executives — for example, by setting an extremely high bar for shareholders to sue.

The original idea behind the push for creation of corporate charters was to offer limited liability (and, later, tax breaks) in return for business models that would further the public interest. Gradually, the public interest part was dropped on the argument that corporations should have no other goal than maximizing shareholder value. Restrictions on corporations buying-back their own stocks were then dropped because pumping profits into boosting share values (rather than investing in productive capacity) was good for shareholders.

We have finally reached the stage where new corporations have no other purpose than to enrich the handful of plutocrats that exercise nearly complete control over them—on the argument that nothing can be more important than keeping the majority owner happy. The founder's interests are far more important than are the—potentially—millions of workers whose pensions have been invested in the shares, helping to create the wealth that the trillionaires use to control the plutocracy. And he who controls the plutocracy has outside influence on government—as Musk, Ellison, and Bezos demonstrate.

5. WHAT THE FED AND TREASURY LEARNED IN THE GFC AND PANDEMIC; CAN TRILLIONS RESCUE US THIS TIME?

Warnings of a coming AI bubble–induced crash are rising. For example, Bank of America warned investors that it was time to "take profits"—that is, to liquidate positions. This was based on a rising number of "bear-market signposts" believed to traditionally precede a market correction. The bank's strategist, Savita Subramanian, warned that the S&P 500 Index was "statistically expensive on 17 of 20 metrics, and trades rich versus its tech bubble metrics on eight" (Maranz 2026).

Proposals to have the US government take ownership positions in the AI companies have been floated from both insiders as well as politicians across the ideological spectrum. Altman has offered to donate 1–5 percent of OpenAI's equity to create a government-backed investment fund to distribute AI wealth to the public. The Trump administration has on occasion endorsed the idea of the federal government taking equity positions in AI companies using the government's acquisition of a 10 percent stake in Intel as a template. Bernie Sanders, on the other hand, has introduced the American AI Sovereign Wealth Fund Act, which proposes a mandatory, one-time 50 percent tax on the stock of major AI firms (to be paid in shares) to establish a government managed sovereign wealth fund that would have both voting rights and board representation.

One is reminded of the claims made just before the *Great Crash* that everybody *deserves* to be rich. This time, the government will take positions in the AI bubble to share the wealth with those who lose their jobs due to AI. Maybe the *Social Security Trust Fund* ought to be saved by moving into stocks of the *Magnificent Seven*, to bubble them up a bit more before they crash and wipe out the most successful of FDR's New Deal programs?

There is another reason to think that the crash may not be postponed for long. As we have noted, the AI bubble has been the main driver of the stock market and economic growth. In just the past few weeks, there are strong indications that the spending and building spree on new data centers is going to slow down for two reasons. First, protestors are beginning the "NIMBY" fight: they do not want the disruptions and noise generated by the centers during and after construction. They are also objecting to the energy and water bills that are foisted on them to help pay for AI investments. Local and state legislators are beginning to get involved. Making AI pay its own way is going to eat into its already stressed business model.

Second, and ultimately the deciding factor, the AI oligopolists are being pressured by investors to produce some revenue to validate the astronomical share prices of the tech firms. This has led to rising prices of the "tokens"—the units of "compute" used by AI. Until recently, those were practically given away to generate the buzz required to convince markets that AI is a revolutionary product that everyone has got to use. Firms using AI actually rewarded employees

based on how many tokens they could burn monthly. As the suppliers started to put price tags on the tokens, those users got hit with huge bills. Now, "the tokenmaxxing era appears to be over" as firms ration use of AI (Tan 2026).

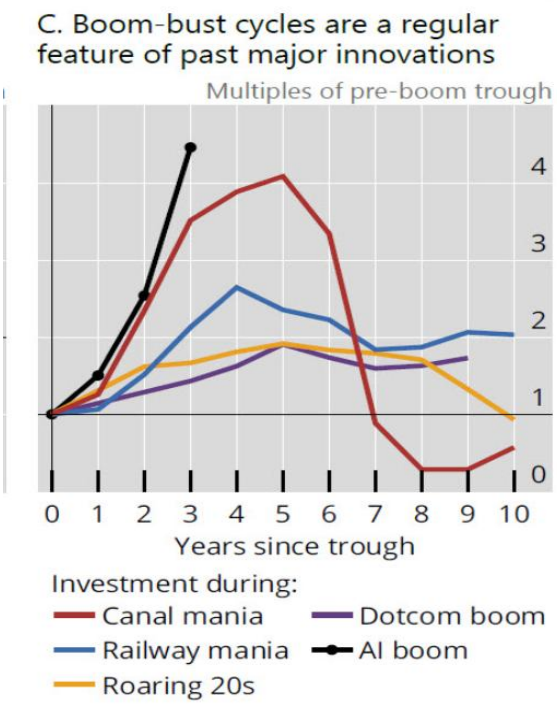
Each new version of AI requires much more "compute," so costs are escalating rapidly. The reckoning is slowly taking hold: maybe AI is not a cost-reducing technology after all. Note that the AI suppliers are not yet even coming close to paying their own way—they are being heavily subsidized by cheap energy, water for cooling, and tax breaks by communities competing for investment and jobs and they are using circular finance to pay for the expensive chips. If prices rise to cover the full costs of supplying AI, the physical investment that has been driving the economy will slow—indeed, many of the biggest tech firms are already severely scaling back their plans for expansion.

While it might be too early to call the crash, troubling signs are already apparent, as recognized in the latest BIS (2026) annual report:[15]

> A reversal of AI optimism could … have major financial consequences, given AI firms' rising leverage and growing footprint in credit markets. Vulnerabilities extend to their supplier ecosystem, including engineering, procurement and construction contractors (EPC) whose balance sheets are comparatively weak, leaving them exposed to any capex pullback by hyperscalers….
>
> Equity valuations are elevated, particularly for firms at the core of AI development…. A large correction in valuations could have more pronounced wealth effects and sharper consumption pullback than in the past. And with US stocks accounting for an outsized share of global equity markets – about 64 percent of the MSCI Global index – the wealth impact from a US-led repricing could propagate globally….
>
> Financial stability could also be at risk in the event of an AI bust. Fixed income markets are one obvious vulnerability, given the high volumes of debt issued by hyperscalers, AI labs and EPC firms. Should hyperscalers slow or halt the aggressive pace of capex deployment, many borrowers across the supply chain could struggle to replace lost revenue and service their debt….
>
> The opacity of AI-sector financing compounds these vulnerabilities. Hyperscalers, chip makers and AI labs are linked through a complex web of private arrangements. The most prominent is circular financing: chip makers and hyperscalers take equity stakes in AI labs or neocloud providers, who in turn commit to multi-year purchases of chips or computing power. Data centre construction is increasingly outsourced to third parties that lease facilities back to hyperscalers on long-dated contracts with embedded exit clauses. The terms of such deals are typically poorly disclosed, with risks of the same asset being pledged multiple times. Together, such arrangements account for a sizeable share of sector-wide financing and forward revenue.

[15] https://www.bis.org/publ/arpdf/ar2026e1.htm

The report includes a shocking comparison of capital investment during previous bubbles that crashed:



The question is whether "it" might happen again. As we have noted, the dot.com, commodities, and housing bubbles ended in a financial crisis and a deep recession—but "it" did not happen, largely because of the Fed's response. What will policy look like this time? Will it follow Hoover's example—uncontrolled liquidation with falling wages and prices? Or the approach taken by Obama and Bernanke—save Wall Street but let Main Street bear the brunt of the pain? Or FDR's tough approach to finance while reforming capitalism—even as the fiscal response was inadequate until the war build-up?

Our preference would be to adopt FDR's example but with a Keynesian-Minskyan inspired approach to fiscal policy. Yes, we should take advantage of the coming financial crisis to reign in money managers and downsize the importance of finance in our economy. We need to reduce the rewards to speculation, shifting the focus of finance toward what Keynes called "enterprise" and what Minsky called "the capital development of the economy." Many financial products should

be banned outright or at least relegated to the fringes of the economy where they cannot pose a risk to the banking system, pension funds, and savings of regular folk. Crypto should be regulated as a risky and dangerous—if not entirely fraudulent—product. Derivatives should be restricted to use by those who actually have positions that need to be hedged. Prediction markets should be heavily regulated (if permitted at all) to curtail betting by insiders and to eliminate incentivizing the behaviors that get rewarded by inside information.

What is the alternative strategy to be pursued to get the economy on course? As Bartlett (2021) explains, in the early postwar period Democrats adopted a "Roosevelt-Keynes bottom up" approach:

> the Roosevelt-Keynes idea that increasing consumption was the key to economic growth became known as "trickle-up" economics, in contrast to the "trickle-down" policies of the Republicans, which saw the prosperity of the wealthy as they key to growth, which would eventually benefit the masses. One of the first people to draw the trickle-up/trickle-down distinction was the Democratic humorist Will Rogers. In a November 26, 1932 column, he wrote:
>
> > 'The money was all appropriated for the top [under the Republicans] in the hopes that it would trickle down to the needy. Mr. Hoover was an engineer. He knew that water trickles down. Put it uphill and let it go and it will reach the driest little spot. But he didn't know that money trickled up. Give it to the people at the bottom and the people at the top will have it before night, anyhow. But it will at least have passed through the poor fellows hands.'
>
> This was in fact the historical Democratic point of view. William Jennings Bryan, three-time Democratic nominee for president, had articulated it in his famous 'Cross of Gold' speech in 1896. 'There are two ideas of government,' Bryan said. 'There are those who believe that if you just legislate to make the well-to-do prosperous, that their prosperity will leak through on those below. The Democratic idea has been that if you legislate to make the masses prosperous their prosperity will find its way up and through every class that rests upon it.'

Unfortunately, after Reagan, trickle-down theory dominated, with even Democrats abandoning the "historical" Democratic reliance on "trickle-up." The bipartisan embrace of trickle-down policy helped to create the Plutonomy. When the crash comes, we must reverse that and return to FDR's trickle-up approach to fiscal policy.

It will be interesting to see what the Fed will do under the leadership of Kevin Warsh, a long-time critic of the Fed's actions after the Global Financial Crisis. Warsh has been critical of the Fed's bond-buying programs, and has argued that the Fed has overstepped its authority in intervening in mortgage markets. At the same time, Warsh is a believer in the theory that AI will

boost productivity, thus allowing the Fed to lower interest rates in a non-inflationary manner as the economy's supply expands. This stance echoes that of Alan Greenspan who in the lead up to the dot.com bubble made a similar argument.

However, Trump's war of choice against Iran has generated inflation that will almost certainly prove to be more than transitory. It is now more likely that the Fed will raise rates than that it will lower them. Given the low rates earned by the Fed on its bond holdings, it is also likely that the Fed's balance sheet is going to remain much bigger than what Warsh would like to see. We may see déjà vu all over again—the Fed sharply raised rates beginning in 2004 as we marched along into the GFC. Warsh's market-based, hands-off instincts may not be well-aligned with what will be needed when the market liquidation begins.

CONCLUSION

We are approaching the 100th anniversary of the Great Crash. Trump has said he hopes to avoid the fate of Hoover. Even though his instinct is to impose tariffs on countries that need US dollars! And his domestic policies have created severe affordability problems for domestic consumers—forcing them to cut back on spending. He taunts them, saying that he is not at all concerned about their affordability crisis. If anything, his stance is more Hoover-like than Hoover's.

Still, the timing of the coming crisis is impossible to predict with anything approaching certainty. We learned in the late 1990s through the mid-2000s that our huge economy can carry on, fueled by an irrational bubble for far longer than we might expect (Wynne Godley began warning of the coming crash of our Goldilocks economy in 1999!)[16] So it is entirely possible that Trump will hand "it" off to his successor (assuming he steps down in 2028).

[16] Godley and Wray (1999) came out in April. Wynne's (1999) earlier, January, piece had laid out the "unsustainable processes" that would generate the crash.

The dot.com bubble did collapse, of course, and most dot.com firms failed. However, the internet survived, along with firms that had workable business models. The fiber optic cables that represented much of the excessive physical investment in that boom remained buried and, ironically, finally came in handy with the AI boom.

However, the Dot.com collapse was cushioned by the creation of two more bubbles—the first in commodities and the second in housing. Commodities and housing happen to be *real* things that people need and are willing to pay for. The commodities bubble was in part stoked by managed money flowing into commodities futures markets, in a sense creating an artificial demand. Supply was constrained by production, but also by stockpiling inventories to artificially run up prices. Eventually the bubble burst, and with lower prices the commodity markets rebalanced supply and demand.

House prices were driven up by low interest rates and declining lending standards, but the associated financial bubble was driven largely by fraud in creating speculative financial assets with derived value that was twice and thrice removed from actual underlying housing. There was no doubt that the *house of cards* would collapse, with insiders telling each other that "you'll be gone and I'll be gone" (YBGIBG) before it happens.

As the Fed jacked up rates, the commodities bubble ran out of steam and the housing bubble burst when adjustable rate mortgages reset, forcing defaults on unfordable mortgages. The crisis began in the shadows of banking, revealing all the off-balance-sheet risks. Each of the biggest banks took a good look at their balance sheets and realized that they directly or indirectly held securitized garbage. The Fed rescued them by holding its nose and casting its "pearls before the swine" that it took onto its own balance sheets.

While it took some time, the housing market recovered, although far too few houses were built during that recovery so we continue to face a housing affordability crisis.

This time around, much of the investment in AI infrastructure looks more like that of the 1920s investment in trusts for a purpose to be revealed later—or perhaps, not at all. There is an

assumption that AI will prove to be useful, for something, at some point, but at best there is significant disagreement over *for what* and *when* that usefulness finally will be revealed.

Meanwhile, the financing of the bubble appears to be as speculative as that of the 1920s or the late 1990s and early 2000s. The circular finance links the balance sheets of the various players in the same way that the finance of the investment trusts of the 1920s was linked and the way that the off-balance-sheet entities and products brought risks to the banks after 2007. These linkages ensure that "liquidation" is unavoidable—it will not take a Mellon to urge it because, as Minsky put it, debtors will have to "sell position to make position," which is what creates the debt deflation process that can make "it happen again."

The deflation of the AI bubble might look more like that of the tulip bulb mania—which seems to have taken about a week—than the Great Crash's many months.

Even as we write, *Bloomberg* worried on June 23 that a "bruising selloff, or 'chip-wreck,' in several technology giants was the latest trigger for concern that the AI frenzy that is powered the equity bull market might be overblown."[17] As the AI providers scale back their planned investment, the value of the chip producers falls. Just as the value of the investment trusts of the late twenties largely consisted of shares of other investment trusts, a significant amount of the worth of AI-related firms resides in the shares of others that is used as the currency of the realm of AI.

The main physical investment is in the data center. The business model of data centers corresponds to Minsky's Ponzi classification—it is not generating any revenue while it is getting built, but expenses are adding up. In other words, the borrowers need to continuously borrow to service the principal and interest of the loan. That is why PIK was invented—to Ponzi the payments by rolling the interest due into a bigger loan. Unlike the dot.com investments in the fiber optic cables that could lay underground for decades before they were brought into use, the

[17] https://www.bloomberg.com/news/newsletters/2026-06-23/wall-street-chip-wreck-triggers-ai-bubble-fear-evening-briefing-america

chips in the data centers will become obsolete very quickly. In other words, they may be obsolete even before they can come online—meaning guaranteed default on debts.

In some respects, AI represents the ultimate plutonomy experiment: trying to achieve mass production *without* needing mass human labor or mass domestic consumer demand, relying instead entirely on asset appreciation held by the wealthiest households. This is highly unlikely to work—while rich folk do have a nearly insatiable demand for luxury goods, they are relatively small in number and the main characteristic of luxury goods that makes them appealing to plutocrats is that they are relatively *rare*. Yet, AI is supposed to create an abundance of everything—which necessarily eliminates the snob appeal. And the masses released from exploitation will not have the income necessary to generate sales of AI's abundance.

Silicon Valley has proclaimed that BIG is the answer: a basic income guarantee to give all the displaced humans income to buy up the abundance created by AI and thereby produce profits for the owners of the robots. We have many objections to this—based in both political science and economics—but the Pope (Leo 2026) has raised the strongest argument. As his recent encyclical put it:

> work is not simply an instrument; it expresses and enhances the dignity of our lives. It is a requirement of the human condition, a normal path toward maturity, development and personal fulfilment. In this regard, financial assistance to the poor may at times be necessary in emergencies, but it cannot become the sole response, since the goal is to enable each person to live with dignity through his or her own work.

BIG cannot be an adequate replacement for loss of the chance to participate in the process of provisioning. Humans are not going to tolerate relegation to mere consumerism funded by welfare. Consuming without contributing to production has always been the role of the idle and miserable rich. That will not be our future.

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