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The Socialization of Investment, from Keynes to Minsky and Beyond

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Abstract

An understanding of, and an intervention into, the present capitalist reality requires that we put together the insights of Karl Marx on labor, as well as those of Hyman Minsky on finance. The best way to do this is within a longer-term perspective, looking at the different stages through which capitalism evolves. In other words, what is needed is a Schumpeterian-like, nonmechanical view about long waves, where Minsky's financial Keynesianism is integrated with Marx's focus on capitalist relations of production. Both are essential elements in understanding neoliberalism's ascent and collapse. Minsky provided crucial elements in understanding the capitalist "new economy." This refers to his perceptive diagnosis of "money manager capitalism," the new form of capitalism that came from the womb of the Keynesian era itself. It collapsed a first time with the dot-com crisis, and a second time, and more seriously, with the subprime crisis. The focus is on the long-term changes in capitalism, and especially on what L. Randall Wray appropriately calls Minsky's "stages approach." Our aim is to show that this theme has a deep connection with the topic of the socialization of investment, central in the conclusions of the latter's 1975 book on Keynes.

Keywords: Great Recession; Marx; Minsky; Money Manager Capitalism; Neoliberalism; Schumpeter; Socialization of Investment; Stages Approach

JEL Classifications: E5, E11, E12, E32, E44, E60, G01, G20, N10, P16

1. INTRODUCTION

An understanding of, and an intervention into, the present capitalist reality requires that we put together the insights of Karl Marx on labor as well as those of Hyman Minsky on finance. The best way to do this is within a longer term perspective looking at the different stages through which capitalism evolves. In other words, what is needed is a Schumpeterian-like, nonmechanical view about long waves, where Minsky's financial Keynesianism is integrated with Marx's focus on capitalist relations of production. Both are essential elements in understanding neoliberalism's ascent and collapse. Minsky—though he died in 1996, just when the "new economy" was revealing its nature—provided crucial elements in understanding the capitalist "new economy." This refers to his perceptive diagnosis of "money manager capitalism," the new form of capitalism that was taking over after the crisis of the so-called Golden Age, which actually came from the womb of the Keynesian era itself. It collapsed at first with the dot-com crisis, and again, and more seriously, with the subprime crisis. The focus of this paper is on the long-term changes in capitalism, and especially on what L. Randall Wray appropriately calls Minsky's "stages approach." Our aim is to show that this theme has a deep connection with the topic of the socialization of investment, central in the conclusions of his 1975 book on Keynes.

2. CAPITALIST LONG WAVES AND MINSKY'S STAGES VIEW OF CAPITALISM

To introduce this problematique we remind the reader of Minsky's argument in his contribution in "Money and Crisis in Schumpeter and Keynes" (Minsky 1986, originally written in 1983). Keynes and Schumpeter are similar. According to both, money is not an outside asset. Indeed—as already hinted by Marx in "Das Kapital," and as the old and new theory of the monetary circuit has been stressing—money is introduced in the economic process as finance for production. Minsky however insisted that in a closed economy without the public sector and without household debts, finance not only allows capitalist production to begin, but it also funds long-term investment demand and the ownership of capital assets. At the same time he agrees with Kalecki that cash flows to non-financial businesses are determined by capitalist autonomous expenditures: Kalecki, who directly drew inspiration from Marx and Luxemburg, referred not only to private investment but also to capitalists' consumption, while maintaining the Classical assumption that workers did not save.

Minsky focused on the financial determinants of investment, which depend on two-price system dynamics. The supply price of capital is related to the price of current production. The demand price of capital assets is the demand for those assets which can be held through time. Capital goods are thus only one among many examples of capital assets. Money supply may affect the demand price of capital assets, but not directly impact the price level of current output. Minsky insisted that loans make deposits out of thin air, and stressed the continuous innovations within the finance sector—positions which took his views near to the circuitist and Post-Keynesian understanding of money. What especially characterizes Minsky's perspective is the stress on the interconnections among balance sheets as well as the insistence that businesses liability structures matter.

The key question arising in this line of inquiry is: what happens if debt commitments are not actually met? The greater the liabilities due to private indebtedness, the greater the possibility of a collapse in asset values "if something happens," as Minsky sometimes wrote (rejecting any mechanical sequence of events). Schumpeterian-like innovations within finance nurture the shift from stability to instability, from hedge finance to fragility. A fall in cash inflows and/or a worsening in financing conditions may trigger a financial collapse. An abrupt drop in investment, income, and profits will ensue. The recession, without institutional interventions, turns into a depression. A "Big Government" may sustain monetary profits and cash flows through discretionary fiscal deficits and built-in automatic stabilizers. At the same time, the "Big Bank" can actively intervene as a lender of last resort. The unraveling of the financial system, following the turn to balance sheet conservatism and debt deflation, can be stopped. The Great Crash of the 1930s, Minsky's "It," can be averted, as it finally was after 1945. However, what happened during the period dominated by the economic policy associated with the 1960s neoclassical synthesis was that government direct expenditure, dominated by armaments and militarism, was mostly non-targeted and unproductive. The welfare system was based on money transfer payments, not job and resource creation.

The fall in asset prices was contained after WWII, and it was substituted by an upward instability. In time, after the Great Stagflation, the financial and economic structures evolved toward a different form of fragility. The economy became characterized by the continuous rise in capital asset prices. Countering the old and new forms of financial turbulence would have required a different kind of policy intervention, which is irreducible to the traditional form of Keynesianism.

3. MICHAŁ KALECKI AND JOAN ROBINSON

On the 27th of December 1971 Joan Robinson delivered a lecture at an American Economic Association meeting in New Orleans (Robinson 1972). That paper proved incredibly perceptive, and very instructive even as it is reread today. She took notice of the "second" crisis of economic theory. It was, in a sense, not only a crisis of neoclassical theory (like the first one), but a crisis of Keynesianism, too. The "first" crisis was the one occurring due to the "Great Slump," as she called it. The dominant doctrine was *laisser faire*, and it preached the positive consequences of the free play of market forces. The complete collapse of the market economy in the 1930s eroded the credibility of the approach, according to which there was a natural tendency to full employment equilibrium. Keynes showed that, in a world characterized by an unknown future and an irrevocable past, money and finance are essential. This (too) late conquest was sterilized by the schizophrenia of the (then) New Economics between neoclassical microeconomics and the macro Keynesian models where involuntary unemployment resulted from rigidities and imperfections.

Michał Kalecki is greeted by Robinson as providing a more general theory than the "General Theory." He brought imperfect competition into the analysis and showed how capitalist expenditure determined the share of profits. Kalecki (1943) anticipated what we think was one of the key reasons of the crisis of the Golden Age. Yes, full employment may be achieved through government spending. There are decisive political obstacles, though. One is the dislike of government interference per se. A second is the dislike of the "direction," i.e., the composition, of government spending (public investment and subsidizing consumption). A third is the dislike of the social consequence of permanent full employment. Government spending shows that the government may overcome the crisis in the state of confidence, which is a powerful means of social and political control by the capitalist class. Public investment may be feared if it could compete with private initiative; subsidizing consumption could be too dangerous for the solidity of the capitalist ethics connecting pay and work. Lasting full employment strengthens the self-assurance and class consciousness of wage earners, thereby putting in question the discipline in factories and leading to political instability.

These objections fade away under authoritarian forms of government like Nazism, and also if state expenditure is concentrated on armaments. Hence, Kalecki famously predicted a regime of the political business cycle. Full employment would be reached only at the top of the boom, but slumps would be relatively mild and short lived. It is somehow paradoxical that at the end of his life, Kalecki wrote an article with Tadeusz Kowalik (Kalecki and Kowalik 1971) where he resolved his skepticism about a possible "fundamental reform" which could stabilize capitalism, all his early doubts notwithstanding. But while he thought a reformed capitalism had reached a state of relative stability (which the two authors attributed to some supposed high degree of social conformity, making an exception for the student movement), it was precisely the moment capitalism was entering a radical crisis exactly (also) for the reasons he anticipated in 1943.

Robinson realized the political background of what was happening. The success of the notion that the capitalist governments had to maintain a high and stable level of employment was due to the fact that unemployment did not occur in planned economies. Anyhow, Keynes's revolution had been mounted against a theory that was unable to explain the level of employment. The argument was won not so much by the historical New Deal (which was not in fact Keynesian) but by WWII, which was, Robinson wrote, a sharp practical lesson in Keynesianism. When there is unemployment and low profits the governments must spend—it does not matter on what. In fact it turned out that the most convenient form of expenditure was armament, and this made the budget deficits palatable. Growth became the mantra, as it was supposed to be the solution to every problem. But absolute, and not only relative, poverty actually reemerged; and pollution became endemic.

As a consequence, the second crisis came from the insufficiency of a theory that was unable to account for the content of employment—a theory that did not ask what employment should be for. At the center there was the issue of the allocation of products, but also the distribution of income and wealth, as well as the division of national income between work and property. The two crises appeared to intersect on the question of how to have full employment without inflation. Robinson was bold enough to allude to Keynes himself as being responsible for the theoretical and policy deviations after WWII, when Keynesians turned Keynes's pleasant daydream into a nightmare of terror.

4. KEYNES AND MINSKY ON THE SOCIALIZATION OF INVESTMENT

Minsky's social and political reasoning in "John Maynard Keynes" (1975) fits squarely into this discussion. It is the logical conclusion of his theoretical and analytical argument in the book. One has only to look at some pages in the introduction and the last two chapters to see what is meant here. Keynes himself must bear a good share of the blame for what happened later. Keynes, of course, favored an egalitarian economy and social control of investment. But he conceded too much to the old orthodoxy—eventually too high of a price for his voice to be heard.

WWII shifted the focus of the analysis, partially because postwar growth began with a solid financial system due to wartime government financing. So-called Keynesians reasoned, theoretically and practically, with models where money and finance did not matter most of the time. After some time, the Great Crash became just a "great exception," and everything was back to normal (actually, this is the way economists like Krugman react to the "Lesser Depression" after 2008). From Keynes the analysis took all that could be incorporated in standard economics and capitalist politics. Neoclassical micro was maintained, and only trivial institutional changes were introduced. This meant suppressing the (admittedly implicit) "General Theory" financial business cycle view of capitalism, and reducing Keynes's approach to an equilibrium and steady growth perspective. "Questions as to whether the success of standard policy could be sustained and questions of 'for whom' and 'what kind' and about the nature of full employment were not raised" (Minsky 1975, p. 16). Minksy's aim was instead to go back, and even radicalize Keynes's radical project.

Indeed, Minsky found that the way Keynes put forward his proposal of a socialization of investment in the "General Theory" was not radical enough. In the 1920s Keynes saw himself as a man of the left. Keynes himself defined the "General Theory" as moderately conservative in its implications. To be sure, the State has to establish controls and influence the propensity to consume; but since it is unlikely that banking policy is able to determine a sufficiently high investment through its influence on the rate of interest, a comprehensive socialization of investment is necessary to assure full employment. Keynes was however explicit that this does not exclude compromises with the private initiative, and must be introduced gradually. Keynes went further: there is no reason to think that capitalism misemploys the factors of production, or fails in determining the direction of employment (and we are back to Robinson's article and her critical remarks).

It is on this point that Minsky's criticisms are relevant. He sees an obvious contradiction between socialization of investment as a means to achieve full employment with the opinion that market allocation of resources is satisfactory. Moreover, Minsky is convinced that the mixture of Big Government plus Big Bank during the so-called Golden Age succeeded in reaching full employment, but with a conservative connotation. What we witnessed thanks to the post-war policy synthesis has not been a socialization of investment, but rather a combination of induced private investment plus artificial stimulation of consumption. Keynes's readiness to compromise with private initiative, together with his acceptance of the neoclassical view that the market does a good job on a micro allocative level, aborted the socialization of investments.

Governments have sustained full employment with expenditures which were claims on productive capacity, and with a welfare policy which consisted mainly in money transfers. Rather than the euthanasia of the rentier, the outcome was a high-profit/high-investment economy. This, in turn, required (against Keynes's own vision) an unrelenting increase of relative needs. The rise of capital's quasi-rents, i.e., of rentier and entrepreneurial income, was another factor favoring speculation. Minsky's Golden Age economy then assumes traits not far away from Baran and Sweezy's "Monopoly Capital" (and Sweezy on Keynes is quoted favorably): waste, military expenditure, degradation of biological and social environment. This 1975 Minsky is sympathetic to what he calls the "socialization of the towering heights": something which he sees as consistent not only with the alternative Keynes he reconstructed but also with a large, prosperous, growing private sector.

In "Stabilizing an Unstable Economy" Minsky (1986) wrote:

> "to the extent that our institutional arrangements were, in the main, set prior to 1936, our basic institutional arrangements were not enlightened by perceptions drawn from the Keynesian revolution in economic analysis. All that we can possibly have are Keynesian operations within a legislated economic structure that reflects a pre-Keynesian understanding of the economy" (Minsky 1986, p. 8).

It is true, however, that the "combination of investment that leads to no, or a minimal, net increment to useful capital, perennial war preparations, and consumption fads has succeeded in maintaining employment" (Minsky 1975, p. 164). Since this capitalist model fosters (financial) instability as well as real contradictions, "[w]e are inevitably forced back to the question of for whom should the game be fixed and what kind of output should be produced" (*ibidem*): a phrase once again reminiscent of Robinson's problematique. For Minsky this meant going back to 1933. The dependence of the economy on high profits and high investments should be broken. The envisaged alternative consists not only (or even mainly, in our view) of soliciting the average propensity to consume, but also, and more crucially, of making public investment and public consumption the core of a new economic model, well beyond Keynesianism as we knew it.

5. A NEW NEW DEAL

These arguments show that Minsky's political project was trying to reconnect his own reading of Keynes with the New Deal, in an innovative new combination. He well knew that the historical New Deal was in partial discontinuity with Keynes. An important article (which was also presented in a conference in Turin in 1983, and published in Italian) is his 1981 *Telos* piece on "The Breakdown on the 1960s Policy Synthesis" (Minsky 1981). Unfortunately, the synthesis he was discussing (and criticizing) was created looking at Keynes through the distorting mirror of the other synthesis, the neoclassical synthesis—an economic theory unable to understand that interventionism is superior to the free market not only in practice but also in theory. This is especially relevant once the world we live in is recognized as one employing expensive and long-lived capital goods; one engaging in financially sophisticated and complex financing arrangements, not only for production but also capital assets; and where banks and financial intermediaries are innovative profit-seeking agents.

For the New Deal the problems with the capitalism that collapsed in 1929 were downside price flexibility, imperfections, and fraud in the financial system. The New Deal reformed finance, increased resource utilization, erected a social safety net for personal income, acted as direct employer, and installed barriers against price deflation. But Roosevelt was not Keynesian, nor was Keynes a Rooseveltian. Work relief was preferred to transfer payments, the latter being of secondary importance during the New Deal. And Minsky agreed: his opinion was that the welfare state as we know it had been good for capitalists, but not so good for the recipients. But Roosevelt imputed mass unemployment (only) to institutional rigidities rather than to insufficient effective demand leading to involuntary unemployment equilibrium. For Roosevelt "reform" was at the center stage, rather than "recovery," as it was for Keynes, who pressed the president for the priorities to be reversed. That's why, in fact, the true exit from the Great Crash actually happened only with WWII.

If the New Deal missed the essential Keynes dimension about effective demand failures and investment's financial determinants, it held another essential dimension which needs to be preserved. This dimension was the emphasis on structural reforms. It is only by putting this latter dimension back in Keynes's vision that the Cambridge economist's socialization of accumulation may not be lost, as it happened in the Golden Age. Minsky's *Telos* article, if compared to his 1975 book, looks softer in his criticism of the 1945–1980 experience (splitting it in two halves: 1945–1966 and 1967–1980). The two aims of maintaining a position close to full employment and of ameliorating poverty were reached. However, the substance may be different. In the 1981 article Minsky actually proposed a Keynesian New Deal: the State should manage markets and create institutions so that all receive income from work. He insists that to reach a full employment configuration which is less liable to instability and capable of truly ending poverty, what are needed are innovative production and employment schemes that exist outside the market and the private enterprise setting.

Even theoretically, Minsky thinks that "Keynes – like Schumpeter – can be considered as a 'Marxist' economist who is conservative and pro-capitalist" (Minsky 1981, p. 54), and concludes that "in light of various asides and chapter 24 of the *General Theory*, perhaps Keynes can be taken as a guide to a practical socialism-interventionist capitalism" (*ibid.*). He even goes as far as writing that "control over the 'finance committee' of giant corporations is the path to a decentralized socialism (or alternatively to a guided interventionist capitalism)" (*ivi*, p. 57). The conclusion was: "the label is of no importance" (Minsky 1981, p. 54).

The expression "socialization of investment" does not appear in "Stabilizing an Unstable Economy": a book very much influenced by Reagan's presidency. Perhaps a similar consideration to the one we made about his 1981 article may be proposed, however: that the substance of his recipe for a successful capitalism (among the 57 varieties) is not so much different than the one we are endorsing here. The real crucial difference which the 1980s brought is, in our opinion, the clear formulation by Minsky of a stage view about capitalism development. It shall be considered in the remainder of this paper, in relation to his view of contemporary capitalism and its crisis.

6. MINSKY'S SCHUMPETERIAN STAGES VIEW OF CAPITALISM

Minsky's stages view about capitalism is proposed in some of his interventions on Schumpeter and Keynes. The occasion was the 1983 centennial conferences on Marx-Schumpeter-Keynes. In our view, partially coincident with that of Minsky (1982), Schumpeter and Keynes are compatible, since they both analyzed a monetary production economy; and they represented for the 20th century what Marx did for the 19th: "Great Dissenters." All three were holding macrofoundations and a credit theory of money. They put money on the ground floor of economic theory, maintained a monetary theory of the rate of interest, and (with some ambiguity in Marx, resolved by Luxemburg and especially Kalecki) thought finance and investment were independent from saving. With the stress on innovation in finance, this longer-term perspective on capitalist development is probably the most important influence of Schumpeter on Minsky. The theme remained with him and it characterized his last published thinking (Minsky 1986a, 1990, 1993, 1996).

Minsky's theoretical-historical narrative mostly focused on US capitalism. Here, the way he included Kalecki (and hence, through him, Marx and Luxemburg) in his system is relevant. Profits result from the way investment by entrepreneurial businessmen is financed by financial capital: that is how a capitalist surplus comes to light. Minsky's Keynes added the capital asset price level, and focused on how the two-price-level dynamics (influenced by the financial structure) determined the level of investment. Capitalism is an evolutionary social formation, since it depends on the (interacting) changes affecting both the productive and the financial capital. The late Minsky did not limit himself to articulate Keynes's involuntary unemployment equilibrium with a (relatively) short-term business cycle perspective, on the background of a given capitalist historical configuration. He now explicitly ventured into the issue of how the financial relations (joining together bankers, businessmen, and portfolio managers) could affect the long-term evolution of capitalism. This allowed Minsky to distinguish five stages: commercial, industrial, financial, managerial, and money manager capitalism.

Commercial capitalism (since, more or less, the 17th century) is the first stage, progressively turning into the second stage, industrial capitalism (more and more relevant in the 19th century). Merchant banks and commercial banks financed goods traded or processed. Already in commercial capitalism, asymmetric knowledge (of local bankers about distant bankers and local merchants) is present as a constituent element. In industrial capitalism firms need huge amounts of resources, and funding especially for machinery. Long-term investments in heavy infrastructures (railroads, mills, mines) required the involvement of the State and/or adventurous financing. All this created the market for the services produced by investment banks, which also financed the rise of trusts and cartels. Thus, during the 19th century, a third form of capitalism—financial capitalism—was being created. Corporations emerged as financial entities, and banks combined the investment and commercial departments. In this stage the financiers were mainly investment bankers and big corporations; large shareholders dominated over firm managers. In Europe, and especially in Germany, this era was the background for Hilferding's "Finanz-Kapital."

Since production required expensive capital equipment, strong competition and excess capacity could lead to prices of the output generating insufficient cash inflows to repay debt commitments. Finance capitalism collapsed in the 1929 Great Crash followed by the Great Depression. The next, fourth stage was managerial capitalism as the outcome of the Second World War. In the world of Marx and Schumpeter, of Wicksell and the Keynes before the "General Theory," profits depended (mainly) on investment financed by commercial (and investment) banks. But in the world of Kalecki and the Keynes of the "General Theory," government deficits may add to the surplus. It is the world depicted, respectively, by the old and by the new theory of the monetary circuit. The role of money as store of value, external finance and the management of debts should also be included. It is this financial perspective on the Golden Age which Minsky adopts, adding that debt-financed housing expenditures are another means to support profits.

After WWII, household and business debts were low, and external financing ultimately involved the Big Government. Managerial capitalism could be typified as a high-profits/high-investments/massive (ex ante)-fiscal-deficits economy. Thanks to the profits originated by Big Government deficits and debt-financed housing construction, firms' internal cash flows could finance their investment. Power shifted from large shareholders to corporate managers, and firms rather than bankers became the masters of the economy. However, according to Minsky, capitalism converted into a rigidly bureaucratic system; government supported (unproductive) consumption and armaments rather than resource creation.

7. MONEY MANAGER CAPITALISM

The Marx-Schumpeter vision, to which Minsky adhered, is that any form of capitalism is inherently driven to dissolve itself because of its internal contradictions, but also because it cultivates in itself the seeds of the next stage. Minsky added the element of institutional ceilings and floors to constrain instability. Something like this happened once again, with managerial capitalism shifting into money manager capitalism (Minsky 1996).

If we move from the end of WWII to the 1960s we witness a capitalism of big corporations, large banks and financial institutions. New intermediaries like mutual funds and pension funds enter the play. Inside managerial capitalism employers offered pension plans to workers, and financial institutions started to aggressively manage retirement funds and other assets of organizations and households. Wealth holdings became embedded in the ownership of the liabilities of managed funds, and not anymore of individual business. More and more, the economic process was dominated by money managers who had as a target the "valorization of capital" (the appreciation of the investments of the holders of their liabilities). Total return on portfolios came to be the standard on which the managers of funds themselves were assessed. The independence of corporations from financial markets faded away, and a market for the control of firms developed. Return- and capital-gains-oriented blocks of managed money made financial markets the major influence on the economy. The institutional investors grew into the masters of the money manager economy. In the market for financial instruments (speculative and ultra-speculative) position-taking by financial intermediaries was financed by banks, within a process of continuous refinancing. Funds bought equity from highly leveraged buy-out non-financial businesses. As always, but with more force than ever, innovation in finance was revealed to be a factor eroding stability and leading to fragility.

Minsky insists that it is these funds' behavior which made business management highly sensitive to stock market evaluations, and transformed US capitalism into a predatory social formation. Taking a long-term view became almost impossible for non-individual firms depending on external funding, or continuous short-term refinancing. "A peculiar regime emerged in which the main business in the financial markets became far removed from the financing of the capital development of the country" (Minsky 1993, p. 112). These changes affected corporate governance, favoring the institution of a network productive system, far from the vertically integrated big factory, but also from the usual small-medium firm. The new configuration pushed forward a policy of downsizing and variable costs compression, which jeopardized employment conditions, so that the latter became discontinuous and precarious.

If it is true that the desired increase in the non-financial businesses leverage ratio predicted by the canonical Minsky model was frustrated, an increasing leverage had to materialize anyhow. There was a ballooning of private debt, not only for financial firms, but also for households. The Great Moderation semblance of stability—and, paradoxically, a stability reproduced through ever growing imbalances—nurtured fragility and turbulence, making this capitalist formation unsustainable. The Financial Instability Hypothesis mutated in its incarnation, but it definitely did not disappear.

8. REAL SUBSUMPTION OF LABOR TO FINANCE

This stage and cyclical perspective on capitalist development is far more instructive about the characteristics of the "new" post-1979–1980 capitalism. Reagan's and Thatcher's Monetarist U-turn rested on an attempted compression of the money supply determining an upsurge, not only in nominal, but also in real interest rates, something which squeezed private investment and spread uncertainty. Together with the attack on trade unions, wages, and social provision, this could have created the conditions for another 1930s-style Great Crash due to a lack of effective demand, were it not for unexpected and powerful, expansionary countertendencies. Indeed, as Minsky (but also Sweezy) well knew, "it" (i.e., a Great Depression) is unlikely to happen again (and stagnation is not forever). And, in fact, the 1979–1982 monetarist experiment was doomed from the start.

The first countertendency took the form of Reagan's twin deficits: the fiscal deficit (which Krugman has termed Weaponized Keynesianism) supported internal demand; the negative trade account provided external outlets for European and Asian neomercantilism. The second countertendency was Alan Greenspan's "privatized Keynesianism." Since the mid 1970s, the class struggle "from above" (as Warren Buffet described it) produced a continuous traumatization of workers (a term anecdotally attributed to Greenspan). The dominance of Minsky's money manager capitalism meant that the middle class and workers' household savings were channeled into private institutional funds and asset markets, fuelling capital market inflation. Managers were co-opted through stock options and their assigned mission of maximizing dividends and share values. Together with a destructive competition between global players in manufacturing and services breeding overproduction, the ensuing corporate governance generated a process of centralization without concentration. Mergers and acquisitions continued to centralize capital. However, this did not universally bring about a higher concentration of units of production. The result was a disappearance of a homogeneous working class and its replacement by fragmentation and precariousness of a working class "lost in space" (Bellofiore and Vertova, 2006).

Rather than the too-generic term financialization, Minsky's money manager capitalism more accurately describes what we have elsewhere called a "real subsumption of labor to finance." This financial configuration impacted directly on the process of production, generating longer working hours, extracting greater effort from workers, and forcing an increase in the labor supply provided by families (the Marxian side of the story about money manager capitalism, if you wish). The rate at which money flowed from funds to financial markets enabled non-financial firms to issue shares more cheaply, the returns of which increasingly depended upon speculative gains. For Minsky, this consummated the divorce between financial markets and capital development: I fear that this is only part of the story, since it is compounded by the "overcapitalization" of productive enterprises (Toporowski 2008). Given the convenience of expanding financial investment relative to real investment, ownership titles were issued in excess of the need of industrial and commercial financing. The money mopped up by those issues was invested in short-term financial activities, propelling a cumulative upward disequilibrium in asset prices without any self-adjustment mechanism. Markets became more liquid, and the supposed quality of collateral assets was thought to be regularly improving. This led to a perceived ex-post increase in the cushions of safety (Kregel 2008). It is not strange that the increasing indebtedness emerged mostly from financial businesses and households rather than from the physical investment of non-financial firms. As noted before, this may partially be in contrast relative to Minsky's pre-1986 canonical model, but it is consistent with his later description of money manager capitalism.

"Manic savers," mesmerized by the rise in the asset values of their holdings, turned into the "indebted consumers," because of the associated collapse of the propensity to save on income: the higher (paper value of their) savings gave way to a reduction in saving. Stock market manias, first, and housing bubbles, later, fuelled the expansion of consumption on credit, making the latter a new "autonomous" form of demand, sustaining profits. In the subprime frenzy, the two-price model probably incorporated within the demand price of capital assets the price of housing. Wage deflation, capital asset inflation, and the increasingly leveraged position of households and financial companies were complementary elements of a perverse mechanism where real growth was doped by toxic finance. Nonetheless, it is important to recognize that "fictitious" capital had "non-fictitious" fallouts, contrary to the usual Marxist narratives, and confirming Minskyan insights.

This new configuration of capitalism was made possible by a new role of the central bank as lender of first resort (De Cecco 1998) to support capital asset price inflation. The central bank managed the creation of liquidity with the objective of sustaining the continuous increase in asset values; it also assured the viability of the shadow banking system and financial intermediaries. Through Greenspan, quantitative monetarism stepped down, being replaced by a policy where money was made available in unlimited amounts at any interest rate established by the central bank. The money supply became flat, and was somehow recognized as endogenous even within the mainstream. It was an eminently political management of effective demand, manipulating indebted consumption as the pillar of autonomous demand: that is why the label "privatised Keynesianism" is appropriate. Because of workers' traumatization, it was possible to have a reduction in unemployment without an increase in wages. However, the resulting full employment was not characterized by decent wages and stable jobs. It was instead, so to speak, a full underemployment, with unemployment penetrating the employed labor force through the spread of temporary and casual/informal occupations.

It was a dynamic configuration of capitalism capable of manufacturing consent and yielding hegemony. However, households' indebtedness in no way corresponded to a state of economic and social welfare. The US "overspending" consumer matched the US "overworking" job earner. Growing debt had its ultimate *raison-d'être* in the insufficiency of income to support consumption of non-manufacturing goods and services. This caused an escalation in expenditures generating rents for the financial sector.

9. CONCLUSION

This backwards way of looking at Minsky through the prism of his stages approach to capitalism and his characterization of the neoliberal era as money manager capitalism—which is in accord with Wray's thesis, according to which, rather than a Minsky moment in 2007–2008, we have lived in a Minsky's half-century (Tymoigne and Wray 2013)—gives further weight to his economic policy perspective, which was heretical in Keynesianism and post-Keynesianism alike. Minsky insists that Keynes's view was that capitalism is inherently flawed, and that it requires regulation, fiscal intervention, and the central bank as lender of last resort. Big Government capitalism is superior to free market capitalism, and the economic policies of Kennedy-Johnson's administrations are surely to be preferred to Reagan's. The problem, however, is that those allegedly Keynesian policies led to a high-profits/high-investment economy, which gained full employment through waste and military expenditures at the cost of social and ecological disasters.

These limits of standard Keynesianism derive not only from a limited understanding of Keynes, but also from contradictions in Keynes himself. Where Minsky is clearest in his vision of economic policy is in the last two chapters of "John Maynard Keynes." In the 1930s Keynes was proposing a moderately conservative perspective. His vision was that investment must be such as to ensure full employment, and taxation such as to ensure a reasonable income distribution. He mixed together two very different views: on the one hand, the need for a socialization of investment, and on the other hand, reliance on the market mechanism's free allocation of resources after reaching full employment. There is here an apparent inconsistency. The Keynesian way out from the crisis was, at least up to a point, faithful to this contradictory Keynes. Wartime policy made respectable large government deficits pushing up firms' quasi-rents; investment was accompanied by an accommodating monetary policy—a large tax bite subsidized individual consumption and money transfer payments. All this turned into a claim on productive capacity. A full employment like this, Minsky said, was a socialism for the rich. It led to a fruitless inflationary treadmill and a deterioration in biological and social environments.

Not only was Minsky able to anticipate the (internal) dissolution of the 1960s Keynesian economic policy—and the ensuing stagflation. He was also able to put forward an alternative economic policy which is still insightful today. "Alternative" here means opposed both to austerity policies and to generic pump priming of effective demand (through government spending and tax reductions, with a low interest rate). Investment had not been truly socialized in the Golden Age, when we experienced a boom driven by military spending, while individual discretionary consumption grew into waste. Minsky thought we had to return to the 1933 questions—the New Deal questions: for whom should the game be fixed, and what kind of output should be produced. The answer to the difficulties was to be found in a more radical approach than Keynes advocated: a socialization of towering heights and leading sectors, with communal consumption. This would call for a larger, not a smaller, role for the State; a low, not a high, private investment policy; serious controls on how capital moves and investment is financed; and a bias against giant financial institutions.

Now that a serious business cycle is here again with the "Lesser Depression," and now that a Fisherian debt deflation is ongoing (Bellofiore, 2013), we should know better than to just accept the lesson that an interventionist capitalism is better than a (pretending) free market capitalism. The key question remains: which kind of interventionism is desirable? Minsky's 1975 answer looks incredibly perceptive, and even more so after the crash of money manager capitalism. Minsky's socialization of investment, thanks to his reference to the New Deal, is not far from a socialization in the use of productive capacity: it is a "command" over the utilization of resources; its output very much looks like Marx's "immediately social" use values. It is complementary to a socialization of banking and finance, and to a socialization of employment. The significance of this last point may be better understood if we see how the "Keynesian" welfare state is an alternative to Minsky's preferred economic policy: a full employment policy led by the government as direct employer, through extra-market, extra-private enterprise and employment schemes.

Minsky's ultimate lesson is that we need structural reform, and not only expansionary demand policies. From this point of view, the argument is convergent with Mazzucato's "The Entrepreneurial State" (Mazzucato 2013): the point is not only to activate the public sector—it is to rethink its role. Paraphrasing Schumpeter in the first edition of the "Theory of Economic Development," the State must be primarily the agent of "creative construction": shaping the data, the market and the institutions, rather than limiting itself to adapting to external market dynamics. In our view, like in the Roosevelt era, this requires us to recognize the positivity of Big Labor together with Big Bank and Big Government. Giving more room to social conflicts helps social subjects to press "from below" the State and the market, while the State provides "from above" a big push to the market so that a more dynamic and egalitarian society emerges.

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