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This volume of the Elgar Companion series, which contains fourteen essays written by prominent Minskyan scholars, aims to showcase how Minsky’s insights have been incorporated into current economic scholarship. Some authors have sought to apply his ideas to the recent crisis, while others have sought to take them to novel contexts, demonstrating the depth of the post-Minskyan research agenda. This work is accessible to those with grounding in economics, but seems to be intended for a reader with a strong interest in Minsky. The book covers a wide range of topics including the Taylor rule, emotion and sentiment in economic theory, and the generalisation of Minsky’s financial instability hypothesis (FIH) to international relations and decline of hegemonic powers. Given the diversity of subject areas, this review can only cover some of the key insights. As such, I will examine the chapters relating to Minsky’s epistemological insights, the modelling of his ideas, and chapters seeking to apply Minsky’s ideas to the recent crisis.

In his chapter entitled ‘Hyman Minsky and the Dilemmas of Contemporary Economic Method’, Duncan Foley highlights that Minsky’s relevance today is largely due his subordination of methodology to knowledge. Foley reminds the reader that despite Minsky’s ‘strong quantitative training ... his refusal to develop a rigorous mathematical model to express his ideas about financial instability is a sharp reminder of the limits of our current methods’ (p. 169). Here, Foley is not advocating the abandonment of mathematical methods, for he is well aware of the utility that mathematical models provide. What he does believe is that expressing Minsky’s insights solely as a mathematical model would have diluted them. This chapter is significant, as it reminds the reader that economists should not limit themselves to knowledge that can be expressed in mathematical language. Moreover, it highlights the importance of valuing insight over methodology.

The two chapters on either side of Foley’s contribution, ‘Innovation and Equilibrium?’ by Martin Shubik and ‘Financial Instability and Agents’ Heterogeneity’ by Tiziana Assenza, Domenico Delli Gatti and Mauro Gallegati, provide the reader with two conceptual frameworks for modelling Minsky’s insights. These are worthwhile as they aim to convert Minsky’s insights into mathematical models, while still maintaining the essence of his ideas. Shubik’s chapter is a little difficult to follow, as the sections are not connected particularly well. However, he successfully constructs a ‘simple well defined model’ (p. 155) where the agents are characterised by various behavioural types, are interrelated, and ‘manifested in multiple roles’ (p. 160). In Shubik’s model, agent interaction in an institutional setting, or an economic network, allows for disequilibrium dynamics to result in an equilibrium arrangement.

Assenza, Gatti and Gallegati on the other hand embed ‘a theory of financially driven capital accumulation into a multi-agent model of an economy populated by firms characterized by heterogeneous financial conditions’ (p. 203).
The multi-agent framework allows one to compare the impact of different behavioural rules, which can be 'traced back to bounded rationality and adaptive behaviour' (p. 191). These collections of rules, shaped by the stimuli from the agent's environment, create an internal model of the external environment. The agent then uses this internal model to make decisions about what will be the best course of action in various situations. Calculations of the kind mentioned above, involving induction, are consistent with the economics of Keynes. As Minsky noted (Minsky 1996), the inclusion of inductive decision-making is a major step towards capturing Keynes's fundamental uncertainty in economic modelling. The constraints of an edited volume mean that the authors must make drastic simplifications, but the reader is still able to appreciate what the authors are trying to demonstrate.

In contrast to the aforementioned chapters, where the authors have engaged with Minsky's work as it stands, the authors of the following chapters seek to answer the questions of what Minsky would have thought, done, and incorporated into his existing theories in response to the 2008–09 financial crisis, and the years of economic transformation prior to the crisis. The chapter 'What Would Minsky Have Thought of the Mortgage Crisis?', by Jan Kregel, addresses the first and second of these three questions by extrapolating Minsky's (1964) views. Kregel concludes that following Minsky's advice of extending the safety net of discount window support to a much wider range of financial institutions than just primary dealers prior to the crisis, would have 'prevented the collapse of secured lending and the difficulty in refinancing guaranteed assets that led to the failure of Bear Stearns and the subsequent freezing of liquidity in the financial markets' (p. 45). In a similar vein Marshall Auerback, Paul McCulley and Robert Parenteau in their essay 'What Would Minsky Do?' also write about what Minsky would have advised. The authors assert that as long as the financial system has 'severe principal-agent problems' (p. 125), then it will be plagued by Minsky moments, leading them to the inevitable conclusion that 'reorienting incentive structures to insure adequate credit analysis, sufficient margins of safety, and a longer term orientation of investors must also be a focus of the public and private sector' (p. 132). Both of these chapters attempt to illustrate the importance of viewing the financial system from a Minskyian perspective, as this would have provided us with the tools and understanding to deal with the fragilities exposed in the recent crisis.

The chapter 'Minsky and Economic Policy', by Eric Tymoigne, diverges from the above two chapters by surveying the so-called Keynesian policies implemented during the postwar period. He draws the reader's attention to how these policies have smoothed output fluctuations, but failed to solve the structural economic problems that thrust the economy towards instability. Tymoigne asserts that these policies were not in the spirit of Keynes's ideas. He ends his essay on a critical note stating that Keynesianism is about 'systemic decentralised planning rather than incoherent fine-tuning' (p. 78).

Of the four essays reflecting on the crisis, the chapter 'Minsky in the "New" Capitalism', by Riccardo Bellofiore, Joseph Halevi and Marco Passarella, is, in my view, the most significant. The authors point out that Minsky's FIH did not account for the fundamental shift in the US economy. Minsky's FIH posited that firms were the main support yet main source of instability for the economy. In contrast, the authors note that the economic system has, during the last few decades, transformed into a new form of capitalism, whereby the major support to
US aggregate income has become private consumption of households fuelled by debt. In light of this change, the authors call for a greater emphasis to be placed on the behaviour of households.

Furthermore, Bellofiore, Halevi and Passarella express the view that effective demand could be created only via the substitution from public debt to private debt because of the ‘compression in real wages, the current account deficits and the (for a while) fiscal surpluses’ (p. 97). This dislocation from firm leverage to household leverage, is an interesting insight as a similar event occurred during the Great Depression (Isenber 1994). Therefore, it seems that excessive household leverage has preceded the two worst financial crises in the last century. It would have been beneficial if the authors had sought to account for the absence of the household from Minsky’s analysis, as only modest levels of household debt were present during his time.

Since endogenous money played a crucial role in the build-up of household debt, a more extensive treatment of Minsky’s theory of money was warranted in this volume. Besides the introduction by Papadimitriou and Wray, and the chapter ‘Rational and Innovative Behaviour at the Core of Financial Crises’, by Eric Nasica, there is no other chapter which explicitly focuses on Minsky’s theory of endogenous money. An empirical paper on endogenous money, and its role in the recent crisis (such as Erturk and Ozgur 2008), would have been a valuable addition to this volume.

In conclusion this review has attempted to highlight that the Elgar Companion to Hyman Minsky has managed not only to effectively convey Minsky’s ideas, and his relevance to understanding today’s economic problems, but also to provide a framework for moving forward with his ideas. The authors should be commended for maintaining the integrity of Minsky’s ideas and providing a future research agenda for furthering our understanding of the modern complex financial system.

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References


