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Introduction

Stability—even of an expansion—is destabilizing in that the more adventuresome financing of investment pays off to the leaders and others follow.

-Minsky, 1975, p. 125¹

There is no final solution to the problems of organizing economic life.

-Minsky, 1975, p. 168²

Why does the work of Hyman P. Minsky matter? Because he saw "it" (the Global Financial Crisis, or GFC) coming. Indeed, when the crisis first hit, many of those familiar with his work (and even some who knew little about it) proclaimed it a "Minsky crisis." That alone should spark interest in his work.

The queen of England famously asked her economic advisors why none of *them* had seen it coming. Obviously the answer is complex, but it must include reference to the evolution of macroeconomic theory over the postwar period—from the "Age of Keynes," through the rise of Milton Friedman's monetarism and the return of neoclassical economics in the particularly extreme form developed by Robert Lucas, and finally on to the new monetary consensus adopted by Chairman Bernanke on the precipice of the crisis. The story cannot leave out the parallel developments in finance theory—with its "efficient markets"

hypothesis"—and the "hands-off" approach to regulation and supervision of financial institutions.

What passed for macroeconomics on the verge of the global financial collapse had little to do with reality. The world modeled by mainstream economics bore no relation to our economy. It was based on rational expectations in which everyone bets right, at least within a random error, and maximizes anything and everything while living in a world without financial institutions. There are no bubbles, no speculation, no crashes, and no crises in these models. And everyone always pays all debts due on time.

By contrast, Lake Wobegon appears to be impossibly unruly. No wonder mainstream economists never saw anything coming.

In short, expecting the queen's economists to foresee the crisis would be like putting flat-earthers in charge of navigation for NASA and expecting them to accurately predict points of reentry and landing of the space shuttle. The same can be said of the U.S. president's Council of Economic Advisers (CEA)—who actually had served as little more than cheerleaders for the theory that so ill-served policy makers.

This book provides an introduction to Minsky's alternative approach to economic theory and policy and explains why Minsky matters. Although there were a handful of economists who had warned as early as 2000 about the possibility of a crisis, Minsky's warnings actually began a half century earlier—with publications in 1957 that set out his vision of financial instability. Over the next forty years, he refined and continually updated the theory. It is not simply that he was more prescient than others. His analysis digs much deeper. For that reason, his work can continue to guide us not only through the next crisis, but even those that will follow.

Minsky's view can be captured in his memorable phrase: "Stability is destabilizing." What appears initially to be contradictory or perhaps ironic is actually tremendously insightful: to

the degree that the economy achieves what looks to be robust and stable growth, this is setting up the conditions in which a crash becomes ever more likely. It is the *stability* that changes behaviors, policy making, and business opportunities so that the *instability* results.

Back in 1929, the most famous American economist, Irving Fisher, announced that the stock market had achieved a "permanent plateau," having banished the possibility of a market crash. In the late 1960s, Keynesian economists such as Paul Samuelson announced that policy makers had learned how to "fine-tune" the economy so that neither inflation nor recession would ever again rear their ugly heads. In the mid-1990s, Chairman Greenspan argued that the "new economy" reflected in the NASDAQ equities boom had created conditions conducive to high growth without inflation. In 2004, Chairman Bernanke announced that the era of "the Great Moderation" had arrived so that recessions would be mild and financial fluctuations attenuated.

In every case, there was ample evidence to support the belief that the economy and financial markets were more stable, that the "good times" would continue indefinitely, and that economists had finally gotten it right. In every case, the prognostications were completely wrong. In every case, the "stability is destabilizing" view had it right. In every case, Minsky was vindicated.

But Minsky left us with much more than a colorful and useful phrase.

The Wall Street Paradigm

Minsky had his feet firmly planted in two worlds. One was the world of "high theory"—the academic environment in which economists create theories and models and occasionally

test them with economic data. Unfortunately, as mainstream macroeconomic theory has so vividly demonstrated in recent years, this can be about as useful as debating "angels on pinheads" when it comes to developing an understanding of the way the world actually works.

However, Minsky had his other foot firmly planted out in the real world of financial markets. Indeed, he always claimed that he began from a "Wall Street paradigm." To be clear, that did not mean that he was one of those "1 percenters" that Occupy Wall Street has been demonstrating against! What Minsky meant was that you've got to understand "high finance" in order to understand our modern economy. And Minsky had a deep understanding of banks and other financial institutions as well as of financial markets.

This understanding helped Minsky to develop an alternative approach. He not only saw it coming, but all along the way he warned that "it" (another Great Depression) could happen again.³ In retrospect, he had identified in "real time" those financial innovations that would eventually create the conditions that led to the GFC—such as securitization, rising debt ratios, layering debts on debts, and leveraged buyouts.

Furthermore, from the beginning he had formulated policies that if applied would have attenuated the thrust toward instability. As the financial system evolved over that half century during which Minsky developed his theories and policies, he continually updated his recommendations.

Ironically, mainstream economics went in precisely the *opposite* direction: as the financial system became increasingly complex and dominant, orthodox thinking actually simplified its approach to finance and relegated Wall Street's role to insignificance in the models that came out of academic ivory towers.

As if that were not bad enough, the government officials in charge of regulating and supervising these behemoths

frequently adopted simplistic and ultimately dangerous mainstream beliefs.

It Happened Again!

Even the U.S. government's own investigation of the causes of the GFC pointed a finger at the failure of our "public stewards" to constrain the runaway financial system. *The Financial Crisis Inquiry Report*⁴ makes a strong case that the crisis was foreseeable and avoidable. It did not "just happen," and it had nothing to do with "black swans with fat tails." It was created by the biggest banks under the noses of our regulators.

According to the report, the GFC represents a dramatic failure of corporate governance and risk management, in large part a result of an unwarranted and unwise focus on trading (actually, gambling) and rapid growth (a good indication of fraud, as William Black⁵ argues). Indeed, the biggest banks were aided and abetted by government overseers who not only refused to do their jobs but also continually pushed for deregulation and desupervision in favor of self-regulation and self-supervision. For example, President Clinton's Secretary of the Treasury Larry Summers—a nephew of Paul Samuelson and the most prominent Harvard Keynesian of today—famously pushed for deregulation of "derivatives" that played a critical enabling role in creating the financial tsunami that sank the economy.

There is a danger in focusing on bad actors, bad financial practices, and bad events.⁶ To be sure, it is a scandal that those most responsible for the crisis—top management at the biggest banks and "shadow banks"—have not faced prosecution. Still, it is important to understand longer term trends. Minsky helps us to put the crisis in the context of the postwar transformation of the financial system, and he would agree that we should not pin all the blame on bad apples.

Lessons from the GFC

As Minsky would say, financial fragility had grown on trend from the 1960s to the latest crash, making "it" (another "Great Crash" like that of the 1930s) likely to "happen again." For that reason, although the GFC was not strictly inevitable, the financial structure made a crisis highly probable. In many important respects, we had produced conditions similar to those that existed on the eve of the Great Depression—and we experienced a similar crisis.

The most important difference, however, was the response. As Minsky would say, the "Big Bank" (the U.S. Federal Reserve Bank, or Fed) and the "Big Government" (Uncle Sam's Treasury) saved us from the worst—we did not fall into a depression. Yes, we had a terrible recession (that we still had not fully escaped even six years later), and we had a monstrous collapse of the financial system that wiped out trillions of dollars of wealth. But though unemployment reached into the double digits—perhaps 25 million workers were without jobs—the social safety net originally put in place during President Roosevelt's New Deal and President Johnson's War on Poverty prevented the extent of suffering we saw in the 1930s.

President Obama's "Big Government" budget deficit grew to a trillion dollars (in part due to a hastily formulated stimulus package), which helped to prop up the economy.

And Fed Chairman Benjamin Bernanke put together a "Big Bank" rescue package of \$29 trillion (yes, you read that correctly!) to save the world's banking system. As a result, we saw very few runs on banks and remarkably few bank failures given that this was by far the worst financial crisis since the Great Depression (when President Roosevelt had to declare a bank "holiday" to stop runs, with only half of all the banks allowed to reopen).

As Minsky argued, the only sensible response to a financial crisis is for the Fed to act as "lender of last resort" to prevent what Irving Fisher called a "debt deflation" caused by fire sales of financial assets as panicked households, firms, and banks try to liquidate their wealth.⁸ President Hoover's Treasury Secretary at the start of the Great Depression, Andrew Mellon, had infamously recommended liquidation as a solution to the crisis: "liquidate labor, liquidate stocks, liquidate farmers, liquidate real estate . . . it will purge the rottenness out of the system." But by selling everything, prices collapsed, bankrupting farmers, firms, and households—making the depression much worse.

Although Chairman Bernanke's response was clumsy, there is little doubt that the Fed played the critical role in saving the banks and preventing asset prices from a free fall.

Still, the outcome was far from rosy. Whereas we emerged from the Great Depression with a robust financial system, strict regulation, and strong safety nets, as of 2015, we have only managed to prop up the financial institutions that caused the crisis—and have left the economy in a much weaker state than it had been in either 2006 or 1940. Tens of millions of U.S. homeowners remain deeply underwater in their mortgages, and millions have already lost their homes.

Although official unemployment rates came down, much of the improvement is illusory—millions of workers have given up all hope and left the labor force. Even after years of "recovery," both the homeownership rate (percentage of Americans who own their homes) and the employment rate (percentage of the adult population with jobs) are stuck well below where they were before the GFC. Inequality has actually increased, and all of the gains in the recovery have gone to the very top of the income and wealth distribution.

And because the federal government in Washington did not follow Roosevelt's example in undertaking a thorough reform

of the financial system, our biggest banks are actually even bigger and more dangerous than they were on the eve of the GFC. They've resumed many of the same practices that created the GFC. Our public stewards are again allowing this to happen. We didn't seem to learn much from the GFC.

The Mainstream Discovers Minsky

As mentioned at the outset of this introduction, when the crisis hit, prominent economists discovered Minsky. The most famous U.S. Keynesian, Paul Krugman, even devoted a number of his *New York Times* columns to Minsky's work. In May 2009, Krugman announced to his readers that he was going to delve into Minsky's 1986 book:

So I'm actually reading Hyman Minsky's magnum opus¹⁰, here in Seoul... And I have to say that the Platonic ideal of Minsky is a lot better than the reality. There's a deep insight in there; both the concept of financial fragility and his insight, way ahead of anyone else, that as the memory of the Depression faded the system was in fact becoming more fragile. But that insight takes up part of Chapter 9. The rest is a long slog through turgid writing, Kaleckian income distribution theory (which I don't think has anything to do with the fundamental point), and more. To be fair, it took me several decades before I learned to appreciate Keynes in the original. Maybe a reread will make me see the depths of Minsky's insight across the board. Or maybe not.¹¹

Krugman went on to give three lectures at the London School of Economics (LSE), the third of which he titled "The Night They Reread Minsky." During his talk, he claimed "I was into

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Minsky before Minsky was cool," and he gave Minsky credit for recognizing the growing fragility of the economy long before it finally collapsed into the GFC.

Similarly, speaking at the annual "Minsky Conference" in April 2009,¹² Janet Yellen (who would later replace Chairman Bernanke as the head of the Fed) commented:

It's a great pleasure to speak to this distinguished group at a conference named for Hyman P. Minsky. My last talk here took place 13 years ago when I served on the Fed's Board of Governors. My topic then was "The 'New' Science of Credit Risk Management at Financial Institutions." It described innovations that I expected to improve the measurement and management of risk. My talk today is titled "A Minsky Meltdown: Lessons for Central Bankers." I won't dwell on the irony of that. Suffice it to say that, with the financial world in turmoil, Minsky's work has become required reading. It is getting the recognition it richly deserves. The dramatic events of the past year and a half are a classic case of the kind of systemic breakdown that he—and relatively few others—envisioned. 13

So if the foremost orthodox Keynesians "reread Minsky" and found much to like, why hasn't this led to a substantial reform of economic thinking and policy making?

Minsky's Rejection of the Presumption of Stability

In his LSE lecture, Krugman explained that Minsky's problem is that he rejected the mainstream's orthodox, neoclassical economics in favor of a heterodox approach. That is why his ideas are not having the impact that they should.

In 2014 Krugman returned to that theme, arguing that in spite of its failure to "see it coming," good old mainstream economics is able to explain the problem with 20–20 hindsight:

[T]he heterodox need to realize that they have, to an important extent, been working with the wrong story line. Here's the story they tell themselves: the failure of economists to predict the global economic crisis (and the poor policy response thereto), plus the surge in inequality, show the failure of conventional economic analysis. So it's time to dethrone the whole thing—basically, the whole edifice dating back to Samuelson's 1948 textbook—and give other schools of thought equal time.

Unfortunately for the heterodox (and arguably for the world), this gets the story of what actually happened almost completely wrong.

It is true that economists failed to predict the 2008 crisis (and so did almost everyone). But this wasn't because economics lacked the tools to understand such things—we've long had a pretty good understanding of the logic of banking crises. What happened instead was a failure of real-world observation—failure to notice the rising importance of shadow banking. . . . This was a case of myopia—but it wasn't a deep conceptual failure. And as soon as people *did* recognize the importance of shadow banking, the whole thing instantly fell into place: we were looking at a classic financial crisis. ¹⁴

According to Krugman, mainstreamers had simply failed to notice the rise of shadow banking—something Minsky had been talking about at least since the early 1980s. Minsky had even written an insightful piece on securitization in 1987, predicting "That which can be securitized will be securitized."¹⁵

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As this book makes clear, however, Krugman makes two fundamental errors. First, he does not understand banking. By contrast, Minsky had a deep understanding of bank operations, gained in part from his Wall Street connections and as well from his experience sitting on the board of a St. Louis bank. That is a topic for chapter 4.

More importantly, Krugman and other mainstream economists do not understand Minsky's "beef" with orthodoxy. For Minsky, the main problem is not that orthodoxy failed to "notice" the rise of shadow banks; he would argue that their theory cannot be made good by adding this detail to their analysis.

Minsky's critique was much more fundamental than that: mainstream economics begins with the presumption that the economy is naturally stable. Market forces are supposed to move the economy back to "equilibrium"—where demand equals supply. This is precisely what Minsky rejected.

The Economist's Mea Culpa

With the benefit of hindsight, orthodox economists now recognize a number of factors that they claim to have led to the crisis. These are the things that Krugman and others wish they had noticed because then they would have seen the crisis coming.

1. Black Swans with Fat Tails. In the euphoric boom of the early 2000s, financial markets had priced the risks based on relatively short time horizons—typically the previous five years. They had also presumed that "tail risks" (the probability of something bad happening) were small. Note, however, that this was during the period proclaimed by Chairman Bernanke to be the "Era of the Great Moderation"—an unusually quiescent period in which asset prices marched

ever-upward. That was particularly true of U.S. residential real estate—which was the main driver of the boom. With home prices rising steadily, defaults on mortgages and foreclosures were rare. Using this period to calculate risk of default as well as to gauge tail risk would necessarily lead markets to massively underprice risk. They should have set aside bigger loss reserves in case a "black swan event" came along so that they could cover the "fat tail" losses. We know better now.

- 2. The Fed Kept Interest Rates Too Low for Too Long. Coming out of the "Bush Recession" at the beginning of the twenty-first century, the Fed kept rates low because the recovery was not creating enough jobs. With no inflation on the horizon, the Fed saw no reason to tighten monetary policy. But those low interest rates induced speculators to borrow to fuel asset price booms in real estate, commodities, and stocks. The Fed ignored "asset price inflation" as it focused only on prices of the "real stuff" consumers buy—which were rising slowly. If the Fed had been paying attention to the speculative bubble, it could have nipped it in the bud by raising rates. We know better now.
- 3. No One Noticed the Rise of Shadow Banking (Krugman's personal favorite). Paul McCulley of PIMCO (which runs the biggest bond mutual fund in the world) is credited with coining the term "shadow bank" to refer to financial institutions that are not regulated and supervised as banks—things like pension funds, money market mutual funds, mortgage companies, and various kinds of securitization vehicles. Over the two decades leading up to the GFC, these grew to be much larger than the commercial banks in terms of assets. They do many of the things banks do—including offering deposits and making loans—but without much government oversight. Most importantly, they

operate with much higher leverage ratios (the ratio of assets to capital or net worth). With very little of their "own money" at risk, they mostly use "other people's money" to buy assets. Even a very small decline in the value of the assets they hold can wipe out all the capital, at which point the "other people" start losing. Our regulators should have forced them to hold more capital, putting more of their "own money" at risk. We know better now.

So, there was nothing wrong with the orthodox economics. We just need to put fat tail risk, asset price bubbles, and shadow banks into the conventional models. Then we'll see the next crisis coming. Or so the orthodox economists assure us!

The policy response since the GFC has largely been based on that view. The main recommendation is to adopt "macro-prudential regulation" to reduce "systemic risk." This is a huge topic, and there is plenty of disagreement over what it really means. However, the most important proposals have been to increase capital requirements, to force financial institutions to have "skin in the game" (more of their own money at risk), and to return some segmentation to the financial system. The idea is that we want to have a segment of the system that is relatively safe, where most people obtain their financial services, and keep that mostly separate from a segment that takes greater risks for those willing and able to bear them.

Minsky's Alternative Vision

Even if we took the three factors listed above as contributing causes to the GFC (which we should not do, as all three arguments are confused),¹⁶ Minsky would argue that adding these to mainstream economics would do little good. It is the

mainstream *vision* that is wrong—the belief that market forces are fundamentally stabilizing.

Most people have heard of Adam Smith's metaphor of the invisible hand.¹⁷ The idea is that a market economy in which every individual seeks to satisfy her own desires will naturally reach the best possible outcome. More technically, those individuals are supposed to react to "price signals," which will bring about equality between demand and supply at a market-clearing equilibrium price.

For example, if the demand for engineers exceeds supply, their salaries rise and induce more college students to choose that profession. An equilibrium salary is reached, where demand equals supply. Similarly, if the supply of widgets exceeds the demand, producers cut back on production and lower prices until demand equals supply at the equilibrium price.

That seems like common sense; the "trick" was to show that the market economy can reach an equilibrium where *every market is simultaneously in equilibrium*—a "general equilibrium"— with supplies equal to demands throughout the entire economy. Not only that, but it had to be shown that the general equilibrium is "stable," meaning that the *invisible hand of market forces* would invariably nudge the economy toward equilibrium if it ever got out of equilibrium.

The neoclassical "vision" is that Smith's metaphor applies to our real world. To be sure, no neoclassical economist argues that the real-world economy is always in equilibrium (although a lot of their models do start from that presumption). They believe that our economy is subject to "shocks"—one of those black swan fat tail events—that move it away from equilibrium. However, the *market forces* operate to move the economy back to equilibrium after such shocks.

There is a debate within the mainstream over just how fast the market forces operate in the real world. Krugman has

made a famous distinction between "saltwater" (U.S. east coast economists at Harvard, Yale, and Princeton) and "freshwater" (University of Chicago) economists. The former believe that there are stubborn "frictions" that forestall the return to equilibrium, whereas the latter believe that the equilibrating forces are strong. As a result, saltwater economists advocate a greater role for government to remove or counteract such frictions; freshwater economists think that government policy would be impotent or even make matters worse.

By contrast, Minsky argued that the internal dynamics of our modern economy are not equilibrium-seeking. There's no invisible hand operating that way. Furthermore, if we ever did achieve the mainstream's beloved "equilibrium," those internal dynamics would push us away—the system is not stable. And if by some miracle we were to get twice lucky—achieving an *equilibrium* that was *stable*—stability is *destabilizing*.

This is because quiescence changes behavior, policy making, and business opportunities. Chairman Bernanke's "Great Moderation" could not have been a stable equilibrium because market participants took into account the "moderation," discounting the likelihood of black swans and fat tails. They took on more risk. A stable economy also makes it ever more difficult to find profitable opportunities as markets tend to become saturated. Finally, economic stability promotes fiscal tightening (through automatic stabilizers that increase tax revenue and lower some kinds of spending) and monetary policy tightening; it also promotes financial deregulation on the argument that the system is more stable. These policy tendencies promote risk-taking. All of these elements ensured that the system would move from a robust structure to a fragile financial profile.

That is the fundamental insight that Minsky left with us. And it is the insight that is rejected by freshwater and saltwater economists alike. They desperately want to keep their equilibrium

methods, building models of the economy that *require* stability. They need that invisible hand. Without it, their whole theoretical edifice crumbles.

Some saltwater Keynesians might object: if Minsky is right, then our modern economic system's dynamics are such that (a) stability is fleeting and (b) anything we do to make the system more stable will eventually be destabilizing. However, it seems that we actually had a very long period in the postwar years with relative stability. Stabilizing policy seemed to work. Minsky must be too pessimistic.

As we'll see, the long period of relative stability, followed by increasing instability and a series of financial crises actually proves Minsky right. According to Minsky, in the New Deal and during the immediate postwar period, we developed sets of institutions that contained the natural instability. However, over time, those institutions became less potent, in part because profit-seeking firms found ways to get around restraints but also because we gradually relaxed regulations and supervision of financial institutions.

The financial structure evolved gradually, from one that promoted stability toward one that generates greater instability. The task, then, is to come up with new sets of institutions to "reconstitute" finance (as Minsky put it), and as well to constrain the inevitable thrust toward boom and bust.

This is not just a matter of bringing back the old constraints that Roosevelt's New Deal had imposed. Times have changed. We need a *new* New Deal.

In the following chapters, we examine Minsky's contributions with a view to outlining the reforms that are necessary to constrain the instability we now face. This requires abandonment of the narrow orthodox view—neither saltwater nor freshwater can save us because both rely on the same flawed vision. We need Minsky's vision of an economy that is not necessarily

equilibrium-seeking and that evolves from relative stability toward rising instability.

In chapter 1, we briefly summarize Minsky's main areas of contribution. In chapter 2, we examine the postwar development of economic theory and policy and contrast that with Keynes's revolution in theory and policy. Minsky always argued that in important ways, the Keynesian revolution was aborted because Keynes's vision was dropped as his less controversial ideas were synthesized with the old neoclassical economics. Much of Minsky's work provided a reinterpretation of Keynes and an extension to take account of the increasingly important role played by finance.

In the remaining chapters, we examine in more detail Minsky's work, which in a very important sense follows Keynes's vision while extending his revolution of theory and policy. Chapter 2, in particular, contrasts the mainstream's interpretation of Keynes with Minsky's reinterpretation.

Chapter 3 examines Minsky's early work in developing his most famous contribution, the Financial Instability Hypothesis (FIH). While beginning with Keynes's "investment theory of the cycle," Minsky adds the "financial theory of investment." Over the course of an upswing, the financial position of firms and thus of the economy as a whole becomes more fragile. Minsky began working on this model of financial instability in the late 1950s and essentially completed it in his 1975 book, *John Maynard Keynes*. In spite of the title, this was most certainly *not* a biography of Keynes, nor is it even an exposition of Keynes's thought. Instead, as Minsky often put it, he "stood on the shoulders of giants"—most importantly, the shoulders of Keynes—to produce his own novel contribution to our understanding of the economy.

In chapter 4, we look at Minsky's view of banking and contrast it with the view of orthodox Keynesians like Paul

Krugman. While that orthodox approach is based on a simple "deposit multiplier," Minsky's view was based on a much deeper understanding of real-world banking. Indeed, it is even broader than that because Minsky began with balance sheets and position-taking in assets—something that he argued can be applied to all firms, households, and governments. So, in an important sense, "anyone can create money"—as he frequently argued—but "the problem is to get it accepted."

Chapter 5 explores Minsky's contributions on employment and poverty. While not as well-known as his work on the financial sector, this work—undertaken while he was at Berkeley offered an alternative to the Kennedy-Johnson, orthodox Keynesian-based War on Poverty. From the beginning, Minsky argued that this "war" would fail because it did not contain a job creation component. For Minsky, the solution to most poverty is to eliminate involuntary unemployment. Hence he recommended a program based on the New Deal's Works Progress Administration, which created 8 million jobs during the Great Depression. It might seem strange for Minsky to have spent much of the 1960s and early 1970s working on this topic—as it seems to be only tangentially related to his preoccupation with financial instability. However, Minsky believed that maintenance of full employment and reduction of poverty and inequality were essential to promoting financial and economic stability. We'll see why in chapter 5.

Chapter 6 examines Minsky's later work, mostly produced after he had retired and moved to the Levy Economics Institute. This represents a major extension to, and revision of, his earlier work on the FIH. Rather than focusing on the evolution of financial positions over the course of a business cycle, Minsky emphasized the longer term transformation of the financial system as a whole. In some respects, this represents a return to his studies with his original dissertation advisor, the great Joseph

Schumpeter, who also was concerned with the evolution over time of the capitalist economy. Minsky developed a stages approach, according to which the capitalist economy has evolved through several different forms. As we'll see, he argued that the U.S. economy emerged from World War II with a very stable form of capitalism, but over the following half century, the financial system had evolved toward fragility. We entered a new phase of capitalism—money manager capitalism—that collapsed into the Global Financial Crisis (GFC) in 2007–2008. This chapter will provide a Minskian analysis of the GFC from that perspective.

From the 1960s on, Minsky worked on proposals to improve bank regulations and oversight. Chapter 7 begins with early work on "prudent banking"—how a "good" bank runs its business. We next examine the essential functions that need to be provided by the financial system of a developed capitalist economy. We then look at a number of Minsky's proposals that are intended to promote prudent banking while fulfilling those functions.

Chapter 8 is the concluding chapter, presenting Minsky's general reforms to promote stability, democracy, security, and equality. His interest was in policies, regulations, and programs that would reduce the natural thrust to instability that is inherent to modern capitalism, while also promoting democracy. Minsky strongly believed that rising insecurity and inequality over recent decades have made the system much more unstable. The question he addressed is how this instability can be attenuated while preserving the freedoms that democracies value.

The book also contains a list of references (Further Reading) and a list of Minsky's writings (The Collected Writings of Hyman P. Minsky). Of course there is some duplication between the two lists, but the reader should use Further Reading to look up the full source for any short citation found in the text.