STABILIZING AN UNSTABLE ECONOMY, by Hyman P. Minsky, McGraw-Hill, 2008; ISBN: 978-0-07-159299-4; 395 pages.

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In his major work, *Stabilizing an Unstable Economy* (first published in 1986), Hyman Minsky sets out to describe the capitalist economy that he perceives to exist in the United States: Financial Capitalism, which later he began to view as a subset entitled Money Manager Capitalism. In this type of economic system, highly advanced financial institutions determine the current state of economic activity. At the center of this theory is the belief that financial institutions are profit-seeking entities, and therefore, they will innovate as necessary in order to increase prospective earnings. Consequently, he saw these firms beginning to use the Federal Funds Market in order to make positions on assets; one result of this was that he was an early advocate of the idea that the money supply is endogenously determined. Furthermore, at that point in his career he possessed a more mature development of his Financial Instability Hypothesis in which an economy could move from a hedge, to speculative, to Ponzi financing positions based upon optimistic expectations, confirmation of those expectations, and resulting decreasing margins of safety.[1] This constitutes his investment theory of the cycle.

Minsky also warned, however, should interest rates increase unexpectedly or current income fall short of predetermined cash commitments, a booming expansion could quickly develop into a crash and a deep recession. In order to offset this, he advocated the policy tools of a Big Bank acting as a Lender of Last Resort which would allow for ceilings and floors to be set for the prices of assets, as well as a Big Government whose deficits would run counter-cyclically. Empirically, he demonstrates the validity of this: despite a deep recession in 1975, government spending was sufficient to preserve current income and profits. This is because an increase in government spending raised the floor of effective demand thus quelling pessimistic expectations and constraining the crash. Furthermore, during each recession the U.S. has experienced subsequently, government deficits have increased despite the mainstream assertion that deficits are ‘bad.’ This only confirms Minsky’s assertion that the ability of deficits to withstand a crash and expedite the road to recovery cannot be questioned.

Minsky also makes several policy recommendations. Seeing much of the modern welfare system as inefficient, he proposes an alternative employment strategy which has become known as Employer of Last Resort. In it, he promotes the development of a buffer stock of labor financed by the government that absorbs those who are unable to find employment. In a downturn this stock will be large, but in an expansion it will be miniscule as the economy approaches full employment. Moreover, with the restructuring of the financial system to be more community development oriented, financial mega-corporations will not be able to influence the enormous swings in investment demand that characterize financial capitalism. In light of the current state of the global financial

economy, his foresight is uncanny and this book serves as an excellent suggestion as to the appropriate economic policy and reforms that must take place to transition to recovery and a healthy, less unstable economy in the future.