The North Atlantic Financial Crisis and Varieties of Capitalism: a Minsky and/or Marx Moment? And perhaps Max Weber too?

Bob Jessop

This chapter poses four sets of questions that bear more or less directly on the North Atlantic financial crisis and its wider economic, political, and social repercussions. First, what kind of evolutionary and institutional political economy is best suited to explain normal and crisis periods in economic development, their alternation, forms of crisis-management, and failures of crisis-management? I argue for a heterodox approach that recognizes the improbability of stable capital accumulation, identifies crisis-tendencies and the challenges of crisis-management, and analyses why crisis-management tends to fail. Second, are different varieties of capitalism (hereafter VoC) more or less crisis-prone and is one variety more responsible for the North Atlantic crisis with its global repercussions than others? Here, while noting that each variety has its own crisis-tendencies, I argue that this crisis is rooted in a neo-liberal variant of the liberal market economy – compounded by speculation, control fraud, financial ‘criminnovation’, and other forms of predatory and/or political capitalism. Yet I also note that the uneven global impact of the crisis is linked to the current forms of integration of varieties of capitalism into the world market.

Third, can the financial crisis be explained through the autonomous role of money and credit relations in crisis dynamics without regard to the circuits of productive capital? Here, noting that the outbreak of the crisis has often been described as a ‘Minsky moment’, I affirm the relevance of his approach but seek to show its limits, both in general and for the current crisis. Fourth, can the crisis be explained in middle-range institutional terms or is it linked to the abstract possibilities of crisis inherent in foundational contradictions and dilemmas of the capitalist world market? Here, whilst affirming that institutions matter and merit a critical institutional analysis, I suggest that some neglected theoretical resources in Marx’s critique of political economy can be reworked to explain some key features of the current crisis. In this sense, the North Atlantic crisis can also be seen, and more significantly so, as a Marx moment. But I also preserve a special place for Max Weber in this account.
On Evolutionary and Institutional Political Economy

It is a commonplace among heterodox scholars that ‘mainstream economics, an organized bulwark against radicalism, filters out all theories that do not meet two requirements: that they must view capitalism as eternal, and crisis as external’ (Freeman 2010: 89; cf. Dymski 2009: 66; Moseley 2009: 15; Shaikh 1978). An evolutionary political economy that takes seriously the historical specificity of the capitalist mode of production would reject the universalizing, transhistorical, and, consequently, ahistorical categories and assumptions deployed in mainstream economics. Moreover, by moving from the initial abstract-simple categories of a critique of political economy through to more concrete-complex categories, it can locate the abstract possibilities of crisis in the basic forms of the capital relation (form analysis) and move to more institutionalist accounts of how crisis-tendencies are actualized in specific periods and/or types of capitalism in the world market. Such an analysis is more likely to produce a multi-dimensional, multicausal approach to crisis tendencies and so provide better grounds for periodization and conjunctural analysis. This has implications not only for explaining the crisis-tendencies of capitalism even when it appears crisis-free but also for the resulting problems of crisis-management.

Various forms of heterodox economics (but not all) adopt such an evolutionary and institutional approach. This chapter develops an approach that combines critical political economy and critical semiotic analysis to facilitate: (1) an ideological critique of dominant economic and political categories, including their emergence, naturalization, reification, vulgarization, and penetration as ‘common sense’ into everyday life; (2) an analysis of differential accumulation, its crisis-tendencies and counter-tendencies, the alternation between capitalism en régulation and more or less chronic states of crisis and economic emergency; and (3) a critique of domination (Herrschaftskritik) concerning the power dimensions of differential accumulation, their articulation to political and ideological domination, and the extent to which other societal spheres are penetrated by the capital relation. Combining these interests involves moving from critical form analysis through critical institutionalism to the specific forms of appearance of structural contradictions and strategic dilemmas and, then, to the ways in which economic (and other) forces handle these dilemmas in specific conjunctures. Regarding crisis-management, this
means studying: (a) how crises emerge when established patterns of dealing with structural contradictions, their crisis-tendencies, and strategic dilemmas no longer work as expected and, indeed, when reliance thereon may aggravate matters; and (b) how contestation over the nature of the crisis shapes actors’ responses through processes of variation, selection, and retention that are mediated through a changing mix of semiotic and extra-semiotic mechanisms.

An ideal approach, which is admittedly hard to implement, would follow Marx’s six-book plan for his eventual critique of political economy. The plan started with capital and moved, successively, to labour, landed property, the state, foreign trade, and the world market and crises. Like much of his work, this outline regards the world market both as the presupposition and posit (result) of differential accumulation. One implication is that, while the analysis would begin with the abstract possibilities of crisis inherent in the capital relation, a comprehensive account of actual crises on a world scale would depend on satisfactory treatment of the topics intended for other books. This would involve moving from basic forms of the capital relation, their contradictions, crisis-tendencies, and dilemmas to historically and institutionally specific mediations and, equally importantly, to the changing balance of forces up to a world scale. It should move beyond ‘pure economics’ to cover economic and extra-economic relations. For Marx also showed how capital accumulation depends on various non-market mechanisms within and beyond the profit-oriented, market-mediated economy. But these mechanisms cannot prevent ‘market failures’ or correct them automatically and without repercussions. Indeed, the mixes of economic and extra-economic conditions conducive to accumulation are opaque, indeterminate, and variable. This sets important cognitive and institutional limits to solving coordination problems and helps to explain the trial-and-error nature of efforts to regularize and govern differential accumulation. I return to this topic below.

**Varieties of Capitalism**

It is widely recognized that there are many forms of capitalism. Indeed, as Minsky observed: ‘The Heinz Company ... used to have a slogan “57 varieties” [and] I used to say that there are as many varieties of capitalism as Heinz has pickles’ (1991: 10). There are also many ways to explore these multiple forms and their interaction. This is reflected in the range of taxonomies, sets of ideal-types, empirically-based cluster
analyses, and logical-historical analyses that have been developed over 150+ years. One typology that is rarely cited by economists was developed by Max Weber, who distinguished six modes of capitalist orientation to profit (Weber 1961; cf. Swedberg 1996). They are: (1) traditional commercial capitalism, based on traditional types of trade or money deals; three modes of political capitalism, based respectively on (2) predatory political profits, (3) profit on the market from force and domination, and (4) profit from unusual deals with political authority; and two modes of rational capitalism, based on (5) rational calculation of opportunities for profit in the market from trade in free markets and capitalist production, with the basis of calculation being the likely impact on balance-sheets; or on (6) trade and speculation in money and credit instruments. Rational capitalism is, remarkably, the analytical focus of Marx and mainstream economics alike. However, whereas Marx focused his form-analytical critique on the historically specific, antagonistic, and contradictory nature of rational capitalism, mainstream economics proposes formal models on the assumption that rational capitalism is universal, harmonious, and self-equilibrating. Whilst broadly accepting Marx’s approach as the starting point for an analysis that does not presume that capitalism is eternal and crises are external, I suggest that all of Weber’s six modes belong in an inclusive analysis of the world market and crises.

Much recent heterodox evolutionary and institutional political economy has explored the varieties and/or diversity of capitalism – with those interested in varieties inclining towards parsimony (with their numbers in single figures rather than reaching 57 or more!) and those interested in diversity emphasizing plurality, heterogeneity, and hybridity. While these approaches (plus cluster analysis) have their uses, the following analysis relies on a logical-historical approach that moves between conceptual elaboration and historical investigation to show how abstract possibilities are translated into actual dynamics. And, given its eventual concern with the world market and crises, it introduces the idea of ‘variegated capitalism’ to capture the interaction of forms of capitalism in the world market viewed as the ultimate horizon of economic and political calculation about differential accumulation.

Indeed, its increasing integration makes it especially inappropriate to study the world market in terms of a mechanical juxtaposition and interaction of ‘varieties of capitalism’. There are four main grounds for this. First, this approach is overly
concerned with distinct (families of) national models of capitalism, treating them as rivals competing on the same terrain for the same stakes. This is especially problematic given the long-term trend towards greater world market integration. For capital accumulation on a world scale depends on reproducing the diversity – hence *variegation* – of accumulation regimes within the world market. This variegation is not reproduced through mechanical repetition but through continuing re-organization based on the structural coupling and co-evolution of co-existing varieties of capitalism. This trend points to an emerging *single, but fractally* organized, *variegated capitalism* rather than a more or less enduring set of *national varieties* of capitalism.

Second, these alleged varieties are often studied in terms of their respective forms of internal coherence on the fallacious assumption that they can be investigated in relative isolation from each other. Yet the scope for rivalry, antagonism, complementarity, or co-evolution among ways of organizing capitalism also matters greatly for world market dynamics. It is important to identify and explain zones of relative stability in terms the complex ‘ecology’ of accumulation regimes, modes of regulation, and spatio-temporal fixes – noting how more stable regimes defer and/or displace contradictions and crisis-tendencies into the future and/or into zones of relative incoherence, instability and even catastrophe.

Third, locating conventional VoC in a globally variegated capitalism highlights the connection of relatively successful performance in certain economic spaces not only to their external and internal conditions of existence but also – and crucially – to the costs they impose on other spaces and future generations. Fourth, the VoC literature tends to assume that all VoC are equal and that, if one proves more productive and progressive (or less inefficient and exploitative) than others, then it could (and should) be adopted elsewhere and, indeed, everywhere, with the same results, as if the whole world economy could be organized along the same lines. This is inherently implausible given the complexities of the global division of labour and the diversity of material, institutional, and socio-cultural conditions associated with different kinds of specialization. In sum, rather than studying individual varieties of capitalism, we should study their variegated articulation and co-evolution in a wider ecology that is both the presupposition and posit (result) of accumulation on a world scale.
This account improves on two alternative claims, namely: (1) there are only separate VoC that co-exist within a differentiated world economy; or (2) there is a single world system that, operating through the logic of capitalist competition, tends to drive all capitals and their associated 'space economies' to converge around a single model. But recognizing 'variegated capitalism' is only a first, albeit important, step to analyzing the world market. For the latter tends not only to connect particular branches of capitalist production and their different forms of social (dis)embedding but also to link them, positively or negatively, with pre- or non-capitalist forms of production. Relevant here are subsistence production, petty commodity production, household production, informal productive and reproductive labour. These are connected in the world market through the increasing dominance of accumulation on a world scale. Indeed, the more strongly integrated is the world economy, the stronger do the contradictions of capital accumulation operate on a world scale. This has both positive and negative effects through the dynamics of uneven and combined development as spur and fetter for differential accumulation.

This provides a new way of thinking about Marx’s claim that the world market is the arena where all relevant forces interact. This did not imply a singular logic operating with singular directionality at the level of the world market (the mistake made in cruder versions of world system theory). Instead Marx regarded the world market as the most developed mode of existence of the integration of abstract labour with the value form – ‘the place in which production is posited as a totality together with all its moments, but within which, at the same time, all contradictions come into play (Marx 1973: 227). In short, the ultimate theoretical and practical horizon for engaging with capitalism should be ‘variegated capitalism’ at the level of the world market.

**A Minsky Moment?**

Given these comments, how might we explain the North Atlantic crisis? For such a complex phenomenon, there is no easy but compelling answer, although many have tried to provide one. Several commentators predicted the North Atlantic crisis in terms drawn from heterodox post-Keynesian analysis à la Minsky and several business analysts and journalists referred to the tipping point into crisis as a Minsky moment. This seemed plausible because the crisis first surfaced on the economic
scene in a manner that could be described in Minskian terms as the collapse of the Ponzi stage of a financial cycle. Let us consider the case for this interpretation.

Minsky (1919-1996) was a financial Keynesian who is best-known for the idea that ‘stability is unstable’ or, better, that ‘stability is de-stabilizing. But his work also covered many other topics. These included: the periodization of capitalism (commercial, then financial, then 1933-37 New Deal welfare, and, most recently, money manager capitalism), with each having its own crisis dynamics related to specific institutional features of the real and financial economies; poverty and full employment policy (with government proposed as the employer of last resort for the unemployed at the minimum wage); the role of big government in contemporary economies; the importance of narrow banking; and the contribution of community banks to local economic development and social solidarity.

According to Minsky’s financial instability hypothesis, unusually long periods of relatively stable growth encourage false optimism. This leads economic actors to borrow excessively and to pay inflated prices for assets. Prudent investors who had hitherto engaged only in hedging finance (in other words, who expected to meet all their debt obligations, i.e., interest and principal, from reliable cash flows) become less risk-averse and/or new investors are seduced to enter financial markets using borrowed money. This is the stage of speculative finance in which interest payments can be met from cash flow but capital repayments now depend on asset appreciation – with the result that, if economic movements do not turn out as anticipated, speculative borrowers may have to take fresh loans to repay the original loan. A third stage begins with Ponzi finance when even the repayment of interest depends on continuing asset price inflation that enables Ponzi borrowers to refinance a debt whose eventual repayment is always being postponed. Over the course of a cycle, huge portfolios of financial instruments are accumulated and levered and an increasing proportion of these portfolios are based on Ponzi finance. Minsky also noted that, over the course of a financial cycle (from hedging through speculative to Ponzi finance), financial institutions, which also become less risk averse, engage in financial innovation to get round regulations and prudential controls intended to prevent speculative frenzies because they expect the boom to last (Minsky 1992). This observation has been elaborated by Thomas Palley, based on Minsky’s own
insights, into a theoretical model of Minsky ‘super-cycles’, i.e., a series of hedging to Ponzi financial cycles, with each successive cycle resolved through bailing out the most indebted borrowers, so that, when the next cycle begins, moral hazard has been reinforced, the purgative effects of crisis have not been allowed to work themselves through, and financial innovation to avoid regulation has been consolidated (Palley 2011; also Minsky 1995, Moseley 2009).

A Minsky moment is the point in a business and or credit cycle when over-indebted investors are forced to sell good assets to repay their loans, causing sharp declines in financial markets and hikes in the demand for cash. This leads in turn to a liquidity and even solvency crisis, which can force central bankers to extend credit (Minsky 1975, 1982, 1986, 1995). The result is a one-sided sellers’ market and market collapse – sometimes called a ‘Minsky meltdown’ – unless bankers or other economic actors come to the rescue.

A ‘Minsky moment’ was not a term employed by Minsky himself (although it is implicit in his work) but is generally attributed to Paul McCullery of PIMCO, a global investment manager, who used it to describe the 1998 Russian financial crisis. It was adopted in 2007 by George Magnus, a senior economic adviser at UBS and regular media economic pundit, to describe the outbreak of the North Atlantic crisis and warn that the crisis could well spread far beyond the mortgage market thanks to the preceding euphoria and the interconnectedness of markets (2007a, 2007b). Indeed, more and more market sectors were discovered to be directly involved in, or exposed to contagion effects from, Ponzi finance – which included not only those who took out sub-prime loans in 2005 and 2006 but also those who took second mortgages to finance consumption or investments, leveraged hedge and private equity funds and their investors, other highly leveraged investment banks, over-invested unit trusts with tiny cash reserves to meet redemptions, and speculators trading on margin in shares, bonds, and commodities. The result is many forced sellers in major asset markets: foreclosures, margin calls, redemptions (Financial Reality 2007). And this can introduce a downward spiral as more borrowers resort to distressed sales (even of good rather than toxic assets) to meet creditors’ demands. This could lead to a debt-default-deflation crisis of the kind analysed in the Great Depression by Irving Fisher (1933) and, later, by Minsky (1995) and Rasmus (2010).
More recently, worries have been voiced about new Minsky moments. Magnus returned to the fray in May 2011 with worries about a *Chinese Minsky moment*. This threat is evident, he said, in the Chinese economy’s dependence on investment for growth (47% of GDP in 2011), of which around half went to property investment. Still more worrying, he argued, is that this investment is based on increased borrowing, leading to dependence on growing credit-intensity (the amount of credit expansion required to generate a given increase in output). Magnus cautioned that ‘a Chinese Minsky moment would hit global growth and resource markets, and shock the consensus about steady appreciation of the *renminbi*. It would also undermine China’s aim of rebalancing its economy towards consumers; and raise the risk of political unrest’ (Magnus 2011). In December of 2011, another PIMCO analyst raised the spectre of an impending *Minsky moment in the Eurozone and European Union* more generally (Parikh 2011). In the same month, the Governor of the Bank of Canada, Mark Carney, declared that a *global Minsky moment* had arrived. In an official speech, he emphasized the great challenge that confronts the world economy as crisis-managers seek growth while trying to reduce debt. As debt tolerance has turned decisively, ‘[t]he initially well-founded optimism that launched the decades-long credit boom has given way to a belated pessimism that seeks to reverse it’. He continued that ‘[c]urrent events mark a rupture. Advanced economies have steadily increased leverage for decades. That era is now decisively over’ (Carney 2011: 4).

Minsky’s financial instability thesis and its culmination in a crisis of Ponzi finance resonated strongly in this conjuncture and the term ‘Minsky moment’ became as contagious as panic in periods of financial fragility. It was adopted in many quarters, being employed by bloggers, leader writers, and journalists in the quality press (e.g, *Financial Times*, *Frankfurter Allgemeine Zeitung*, *Le Monde Diplomatique*, *La Repubblica*, *the Wall Street Journal*), and business channels such as Bloomberg, Business News Network, and CNBC) (for examples, see Cassidy 2008, Chancellor 2007, Lahart 2007, and, in more academic terms, Whalen 2007). This led *The Economist* to describe the crisis as a whole as ‘Minsky’s moment’ (Buttonwood 2009). Indeed, he was ‘a cult hero among more bearish commentators after his model of a credit-driven asset-bubble, proposed back in the 1970s, was almost
uncannily played out shortly after he died’ (Wilson 2007). Ivanova has also suggested that, for Wall Street insiders, ‘Minsky’s moment’ is linked to the utility of his instability theorem in explaining the inevitability of financial crises and the consequent need to rescue banks deemed too big and/or interconnected to fail (2011: 21).

Interestingly, Minsky himself thought it unlikely that ‘it’ would recur, i.e., another financial cycle would implode, because, he believed, the authorities had learnt their lesson well from the 1930s. The state had learnt how to engage in expansionary fiscal policy, which boosts demand and profits, setting a floor to their decline; and, in addition, Central Bank intervention as lender of last resort would prevent a financial crisis from spreading, through a generalized liquidity squeeze. Consequently, ‘the likelihood of a collapse in profits, such as what happened in the 1929-1933 period in the United States, decreases almost to the vanishing point’ (Minsky 1995: 89).

What Minsky did not fully anticipate is how far neo-liberal forces would succeed in weakening the state’s ability to engage in Keynesian demand management and otherwise undermine the counter-cyclical operations of big government. Nor did he foresee how far a combination of de-regulation and regulatory capture plus financial innovations such as securitization would lead to a finance-dominated regime in which investment in the ‘real economy’ at home was no longer the primary determinant of corporate profits. Instead cost-cutting, off-shoring, rent-seeking based on intellectual property rights and/or cost-plus government contracts, and financial engineering have become more important. Financial innovation has vastly increased the amount of leverage in the system and, contrary to Minsky’s view that households relied on hedge finance to sustain their consumption and to purchase housing, it has enabled them to engage in speculative and Ponzi borrowing on a massive aggregate scale – encouraged to do so through lenders’ new-found ability to securitize these loans and off-load their risks (on household consumption, see Ivanova 2011). This overwhelms the capacity of central banks to act as lender of last resort and/or has prompted the socialization of toxic assets at fictitious prices (compared to their mark-to-market valuation) and the transformation of private Ponzi debt into public and/or sovereign debt. This has changed the forms of appearance of the crisis and the allocation of its costs and consequences but it has not resolved it.
This raises the following questions. Can the North Atlantic Crisis and the potential global crisis -- initiated this time from China rather than the USA (though both are pathologically interlinked in the economic space some call ‘Chimerica’) – be understood in terms of a financial and speculative crisis à la Minsky, which then spreads through contagion and policy errors to the real economy (debt-deflation-default) dynamics? Do these crises also have their origins in the real economy, leading to crises in the financial sector, which would indicate that there may also be an important Marxian moment – with moment being interpreted this time as aspect rather than event or trigger -- to the crisis? Or, again, does the role of political action in creating the conditions for financial de-regulation and predatory finance indicate that there is also a Weberian moment (aspect) to the crisis in the role of political rather than rational capitalism, whether in the form of rational production or financial speculation? Or, perhaps, are these different aspects interrelated and, if so, how?

Minsky’s financial Keynesian studies seem persuasive when compared with the neoclassical-Keynesian synthesis (Papadimitrou and Wray 2008). His analysis captures important financial features of market economies and he explores the institutional framework in which financial stability leads to financial fragility (Minsky 1995; Ferri and Minsky 1992). In the 1980s and 1990s he also explored the implications of securitization and money manager capitalism. Some Marxist commentators have suggested combining Minsky’s analysis of financial crisis tendencies with Marx’s analysis of crisis-tendencies in the real economy to produce a more comprehensive and more persuasive analysis (e.g., Crotty 1986; criticized by Moseley 2009). Others have censured Minsky for assuming that the real economy cannot be the cause of crises. This is because he accepted Jerome Levy’s and Michał Kalecki’s financial analyses of national accounting identities and their implications for profits and unemployment, conflated the real and the financial, and concluded that real economic crises are the reflection of financial crises rather than financial crises a reflection of crises in the real economy (Moseley 2009; Crotty 1986). Specifically, Minsky’s analysis rests on the Levy-Kalecki equation of gross capital income with financed gross investment (Minsky 1995: 89). Minsky developed ‘an investment theory of the business cycle and a financial theory of investment’ (Minsky 1982: 95). **In brief, ‘investment** calls the tune, and profits dance accordingly’ (Minsky 1982: 00; cf. 1995: 89). Or, as he noted at greater length:
‘The gross profits of business depend not upon the “productivity” of capital in any technical sense, but upon the amount of investment. The profitability of existing capital – and profit expectations from investment – can only decline if investment and expected investment decline. Thus we have to look elsewhere -- to arguments other than those derived from assumed properties of production functions and hand waves with regard to over-investment – to explain why the marginal efficiency of investment falls. The natural place to look within the Schumpeter-Keynes-Kalecki vision is to the impact of financing relations – relations which involve both the financing of positions in the stock of assets and investments’ (1983: 13).

This proposition is presented by Marxist critics as contrary to Marx’s analyses of the circuits of capital. In particular, once commodity production based on wage labour and machinofacture has become the dominant form of economic organization, productive capital becomes its primary driving force. This criticism is easily overdrawn, however, because, for Marx, capitalist commodity production was always-already monetized and dependent on credit-debt relations (making it hard to differentiate the ‘real’ from the ‘financial’ sector) (e.g., McNally 2011).

A different and more compelling version of this criticism that bears directly on the limits of financial crisis-management has recently been advanced by Ivanova (2011). Commenting on the structural causes of the ‘Great Recession’ that has followed what I term the North Atlantic Financial Crisis, she claims that it originated not in the US financial sector but in the system of globalized production. Moreover:

‘the belief originally fathered by Proudhon, reinvented by Keynes, and avowedly embraced by Minsky, that social problems have monetary/financial origins, and ergo could be resolved by tinkering with money and financial institutions, is fundamentally flawed. Yet the very recurrence of crises attests to the limits of fiscal and monetary policies as means to ensure “balanced” accumulation’ (Ivanova 2011: 1).
This point is taken further by other Marxist critics, who claim that Minsky’s financial instability thesis is neither empirically convincing nor theoretically compelling⁹ and, in addition, fails to address the global rather than national character of the current crisis (Brenner 2006). In contrast, they argue, Marx not only analysed the crisis tendencies and antagonisms in the circuits of productive capital – which Minsky had ignored – but also recognized the abstract possibility and actual occurrence of *sui generis* financial crises and their potential impact on the real economy – in ways that prefigure Minsky’s analysis.

In a complementary criticism, Carchedi contrasts the class perspectives of Minsky and Marx in their analyses of crisis. He writes:

‘Minsky (following Keynes) sees the economy “from the boardroom of a Wall Street investment bank”,¹⁰ Marx from the perspective of labour. Therefore, for Minsky, the economy’s instability is basically financial instability. This is due to the “subjective nature of expectations about the future course of investment”.¹¹ Investments here are basically financial investments because they are determined by borrowing and lending. For Marx, the economy’s instability is an objective feature, the result of the crisis-prone tendency in the real economy, first in that sector and then in the financial and speculative ones’ (Carchedi 2011).

Indeed, Carchedi further suggests that the economic and social standpoints of Minsky and Marx are reflected in contrasting views not only about the determinants of investment and employment but also about the possibilities of effective state intervention to manage the effects of financial crisis. Whereas Minsky makes investment and profit flows depend on portfolio decisions by different kinds of borrower, for Marx they depend on the rate of exploitation and expectations of future profits. Moreover, whereas Minsky believes that the big government and demand management can resolve crises by compensating for private sector deleveraging and declining demand and, in this way, raising profits and employment, Marx analyzes the contradictory impact of state policy on profits and their realization respectively. In short, he argues, that because Minsky erases classes, class interests and class struggle, his and Marx’s accounts of financial crisis are not so
much complementary as radically alternative. His final blow is that everything in Minsky relevant to financial crises and bubbles can also be explained [presumably better] by applying Marxian categories and analyses to the present (Carchedi 2011).

There are certainly strong similarities, as we shall see, between Minsky’s analysis of financial portfolio movements, including the three types of borrowing relative to interest and principal repayments, and Marx’s analysis of loan-bearing capital and the expansion of fictitious capital. It may also be possible to subsume Minsky’s insights into a Marxian analysis without buying into his ‘boardroom’ perspective. But reconstruction is not the same as claiming that Marx fully anticipated Minsky’s analyses even if he provides tools to recontextualize them. So, before dismissing Minsky out of hand, we should provide a more detailed review of Marx’s analysis of money functions, money forms, and currency pyramids.

A Minsky Moment or a Marx Moment?

As noted above, adopting a logical-historical approach to the critique of political economy, Marx distinguished abstract potentials for crisis from their concrete causes in specific conjunctures. The real economy was, for Marx, always-already monetary. It involved generalized commodity production and the ever-present possibility that the exchange C-M-C (in terms of the conventional Marxian annotation: commodity-money-commodity) would be broken through the hoarding of money and/or for other reasons. Thus, even before he focused on capitalist production relations, Marx showed a theory of money and credit was an essential foundation for developing a theoretical account of crisis-tendencies. Money was essential to simple commodity circulation (C-M-C) and become more important still when money was transformed into capital (M-C-M’), i.e., allocated to the production of commodities in ways that enable surplus-value to be created and realized, leading to a larger sum of money at the end of the process than was initially invested. It is this transformation that, for Marx, underpins the modern system of financial markets and institutions (Marx 1981: 379-727). In brief, the real economy was the fundamental basis of crisis-tendencies and monetary-cum-financial crises were essentially supplementary factors. Nonetheless, in certain circumstances, financial crises could emerge on the basis of relatively autonomous financial movements with major repercussions on productive
capital. Thus, while profit fluctuations are critical to monetary crises that are directly rooted in industrial and commercial crisis, some monetary crises have own causes and affect wider economy through contagion and feedback effects (Kenway 1980; for a recent review, Lehner 2010).

To interpret these initial comments on Marxian crisis theory, we need to consider his analysis of the functions of money, the forms of money, and, when we come to crisis-tendencies at the level of the world market, his views on world money and bullion (Jessop 2012). Two critical distinctions, often overlooked in exegeses that highlight the fundamental role of the ‘tendency of the rate of profit to fall’ in generating capitalist crises, are, first, that between money as money and money as capital; and, second, in this context, that between functioning capital and capital as property. Marx and Minsky agree on the importance of money’s function as a means of (deferred) payment and, hence, the role of credit-debt relations. Minsky cycles can be understood in terms of a shift in the role of money as capital from functioning capital towards capital as property. In Minsky’s analysis, the role of hedging in the expansion of economic activities can be seen as one aspect of money as functioning capital. In contrast, in speculative and Ponzi finance, money operates in the guise of capital as property, i.e., as loan-bearing capital. Marx also suggested that the advance of credit is critical to the expanded reproduction of capital (serving to pre-validate investment and production – Minsky’s hedging role – but vulnerable for this reason to ruptures in the C-M-C and M-C-M’ circuits). He added that a period of growth facilitated in this way encourages further expansion of credit-debt relations. However, an increasing volume of credit-debt also makes the economy more vulnerable or, to cite Marx, ‘oversensitive’ to the eventual downturn (Marx 1981: 706). In this context, Marx observes a pro-cyclical flight to safety, ‘a violent scramble for means of payment’ (Marx 1981: 621), which others would later call ‘a Minsky moment’, threatening a downward spiral of debt-default-deflation:

‘[When the rate of profit falls,] this disturbance and stagnation paralyzes the function of money as a means of payment [of debt], which is given along with the development of capital and depends on ... presupposed price relations. The chain of payment obligations at specific dates is broken in a hundred places, and this is still further intensified by the breakdown of the credit
system. ... All this, therefore leads to violent and acute crises, sudden forcible
devaluations, and actual stagnation and disruption in the reproductive
process and hence to an actual decline in reproduction’ (Marx 1981: 363).

In times of pressure, when credit contracts or dries up, money suddenly
confronts commodities absolutely as the only means of payment and the true
existence of value. Hence the general devaluation of commodities and the
difficulty or even impossibility of transforming them into money ... millions’
worth of commodities must be sacrificed for a few millions in money. ... As
long as the social character of labour appears as the monetary existence of
the commodity and hence as a thing outside actual production, monetary
crises, independent of real crises or as an intensification of them, are
unavoidable (Marx 1981: 649).

In short, differential accumulation and crisis dynamics rest on the interaction among
(1) abstract forms of crisis (the abstract potential of crisis) in commodity circulation
-especially of capitalist commodities), (2) the basic crisis-tendencies of capitalist
production (which may be expressed in various ways), (3) the basic crisis-tendencies
in the form and functions of money in circulation and the organization of production,
and (4) the potential for the autonomization of finance when it circulates in the guise
of capital as property rather than as functioning capital and, hence, the scope for
short-term parasitism and predation by finance capital on the value created within
the circuits of productive capital. These complexities make it misleading to explain
crises in terms of initial or immediate causes. The specific crisis events and
moments that trigger the crisis are contingent relative to the necessity of crisis.

These contingencies can be seen in the effects of financialization. This tends to
transform the role of finance from its conventional, if crisis-prone, intermediary
function in the circuit of capital to a more dominant role oriented to rent extraction
through financial arbitrage and innovation. This weakens the primacy of production in
the overall logic of capital accumulation, works against the long-term stability of
accumulation and its regulation, and eventually runs up against the limits of a
parasitic, rather than intermediary, role. This can be seen in the most recent wave of
financial innovation associated with the rise of derivatives. These are new examples
of capital as property, i.e., as fictitious capital that is valued ( Assumes a price form) on the basis of discounted future revenues or simple speculation on more or less volatile markets in financial instruments. Derivatives as forms of financial innovation integrate production on world scale and, via their role in all functions of money apart from means of immediate exchange, contribute to market completion on a world scale in real time. For example, they: (1) overcome the frictions of national boundaries; (2) open national economies to foreign competition; (3) help to overcome the clumsiness of production; and (4) enhance the role of finance in promoting competition. They generalize and intensify competition in relation to the means of production, money capital, specific capitals as units of competition, and social capital (Bryan and Rafferty 2006). In short, in so far as derivatives promote the completion of the world market, they also serve to activate ‘all the contradictions’ of capital accumulation (see Marx 1847; 1973; and Marx and Engels 1976).

Among other effects, these ‘financial weapons of mass destruction’ (Buffett 2003: 16) multiply the volume of opaque, highly leveraged, largely unregulated financial transactions. The expansion of these markets (especially when hidden in shadow banking activities or conducted off-shore) means that they now dwarf the role of financial intermediation and risk-management and therefore play a pro-cyclical, heavily de-stabilizing role via financial speculation and risk-taking by highly leveraged financial institutions (see Broadbent 2011; Haldane and Alessandri 2009). It is hardly surprising, therefore, that they played a crucial role in the North Atlantic Financial Crisis and its global repercussions, inflating the financial bubble to a degree unimaginable to the layperson and hard to calculate even for experts.\(^{13}\)

The importance of the state emerges clearly in these conditions. Specifically, when it becomes apparent that the flight to safety is impossible without precipitating another Great Depression due to the excess of credit generated through leverage, capital as property that has become a toxic asset is purchased through central bank activities and/or is socialized at fictitious prices through the creation of state fiat money backed by the state’s taxing powers. The massive expansion of public and sovereign debt in response to the North Atlantic Financial Crisis has rescued an over-leveraged, over-extended private financial sector largely through displacing the problem to the state and inter-state level. This is evident in the USA, Ireland, and United Kingdom and, with a different dynamic, in the Eurozone. Without the expected purgative effects of a
real depression, this postpones the forcible re-imposition of the unity of the circuits of capital through the elimination of excess production capacity relative to effective global demand (one effect of the neo-liberal offensive against labour) and of excess credit relative to the underlying expansion of the ‘real economy’ (one effect of the rampant financialization promoted through neo-liberalism). Whilst Marx could not anticipate the specific forms of the current crisis, his analysis of the abstract possibilities of crisis does describe their general form.

A function of money that Minsky largely ignores is that of world money, i.e., as a means of international settlement (conventionally through transfers of gold bullion and/or currency reserves deemed ‘as good as gold’). This function becomes more important, the more the world market is integrated through trade, through direct investment that widens and deepens the international division of labour, and through financialization. In the absence of a bullion-based world money such as the gold standard or dollar exchange standard, the socialization of toxic financial assets by the US federal government threatens massive contagion effects on a world scale thanks to the continuing but diminishing role of the dollar as the de facto world money. Similar points hold for the Euro and Renminbi as a key negotiated currency and emerging top currency respectively. This is where the hierarchy of monies (commodity money, bank money, central bank money, state money, and world money) provides important advantages to the capitals and states that effectively control the de facto world money or, in the case of the Euro, the de jure regional money and potential challenger to the dollar. This brings us back, again, to the importance of foreign trade, the state, the world market and crises in providing a comprehensive account of the contradictions and crisis-tendencies of capitalism.

**Some Oddly Weberian Conclusions**

The recent and continuing North Atlantic Financial Crisis and its uneven global repercussions have finance-dominated, neo-liberal accumulation at their core. This characterization refers to the articulation of the circuits of finance and production and is not intended to re-assert the misleading distinction between finance and the ‘real economy’. The crisis was made in the USA and first broke out there, spreading via a mix of contagion and endogenous crisis-tendencies to other parts of the world.
market, even when these had not undergone neo-liberal regime shifts or had even taken defensive measures against the effects of neo-liberalism. Yet the ecological dominance of neo-liberalism in the world market, i.e., its role as problem-maker rather than problem-taker, has survived the global financial crisis. This reflects the global weight of the American economy, the continued dominance (despite declining hegemony) of the US federal state in the world political order, the lobbying power of financial interests in an increasingly corrupt US legal and political system, and the ecological dominance of the world market within world society. This is exemplified by the pathological co-dependency of the US and Chinese economies and its global ramifications. It is also exemplified on a regional scale (also with global repercussions) in the growing tensions in the Eurozone between the dominance of German neo-mercantilism associated with its export-oriented growth model and the operation of a crisis-prone Eurozone onto which neo-liberal austerity policies are being imposed and may even be entrenched in changes to the European constitution. These problems are reflected, as seen above, in concerns about Minsky moments in the USA (as the NAFC first broke out there), in neo-liberal economies more generally, in Europe, China, and, indeed, the world market, with recent fears being expressed about a ‘global Minsky moment’.

‘The world is becoming universally capitalist. Because of today’s communications, record keeping, and computational capabilities, global financial integration is likely to characterize the next era of expansive capitalism. The problem of finance that will emerge is whether the financial and fiscal control and support institutions of national governments can contain both the consequences of global financial fragility and an international debt deflation’ (Minsky 1995: 93).

At least in later work, then, Minsky noted the importance of what Marx analysed in terms of the growing integration of the world market and he called ‘the world becoming universally capitalist’. He also noted the scope for financialization based on financial innovation tied to changes in information and communication technologies and, one might add, the scope for time-space distantiation and time-space compression that they offer to superfast, hypermobile capital (see also Minsky
1987). This suggests that some Marxist critics have misrepresented his capacity to anticipate novel features of the current crisis. Indeed he anticipated the scope for what the Governor of the Canadian Central Bank would later call a ‘global Minsky moment’. In this sense, I believe that we can describe certain aspects of the North Atlantic Financial Crisis in terms of Minsky’s financial instability hypothesis and, indeed, describe the moment when the crisis finally became evident with the accelerating flight to safety as a ‘Minsky moment’. This is in part because he correctly diagnosed some of the reasons why ‘it’ has happened again – but in the counterfactual sense of identifying the constraints introduced after the Great Depression in post-war America that prevented ‘it’ from happening again. What he missed was the shift in the balance of economic and political forces in the 1980s and 1990s that enabled the dismantling of these constraints, the defeat of organized labour, and the gradual but accelerating erosion of the welfare state. Interestingly, he did capture aspects of finance-dominated accumulation in his account of money-manager capitalism and his discussion of securitization.

This does not mean that Minsky’s theory in any of its versions elaborated over 30+ years can fully explain the current financial crisis even in terms of its abstract possibilities, let alone its concrete causes and specific unfolding. But nor does a putative Marxian account. The more important question is whether Minsky provided powerful insights into the overall circuits of capital and the variable interaction between the circuits of productive and financial capital. Here, because of his one-sided focus on finance, the answer must be no. In this regard Marx has more to offer provided that his work is adapted and updated to the contemporary world market.

I conclude by returning to my opening remarks on the blinkers of mainstream economics and on the diversity and varieties of capitalism, invoking again Weber’s typology of modes of orientation to profit. First, if mainstream economics seeks to treat capitalism as eternal and the causes of crisis as external, we might add that:

‘[E]conomics ignores criminogenic environments. The weakness comes from three sources. Economic theory about fraud is underdeveloped, core neo-classical theories imply that major frauds are trivial, economists are not taught about fraud and fraud mechanisms, and neo-classical economists
minimize the incidence and importance of fraud for reasons of self-interest, class and ideology’ (Black 1995: 1).

Second, in this context, to explain the North Atlantic crisis, we should add a Weber moment. Both Minsky and Marx focused on aspects of what Weber classified as the two modes of rational capitalism. Their analysis of the abstract possibilities of crisis largely missed Weber’s modes of political capitalism. Yet a growing theoretical and investigative literature shows that the financial crisis could become as serious as it has done because of unusual deals with political authority that enabled the dismantling of prudential controls, the rise of shadow banking and off-balance sheet transactions, and the weakening of state crisis-management capacities (Nersisyan and Wray 2010). There is also growing evidence of predatory profits based on fraudulent activities ranging from control fraud through corruption and insider trading to systematic infringement of laws about real estate titles, foreclosure processes, and so on (Black 2005, 2009; Smith 2010). Profits from force and domination may have mattered less in generating this crisis but they have been important in other crises linked to military intervention and/or the imposition of market opening, structural adjustment, and financial conditionalities in the Global South and, recently, Southern Europe. In short, if one were to take a broader, world market perspective that considers not only varieties of ‘rational capitalism’ (and their inherent irrationalities) but also ‘political capitalism’, very different conclusions would follow about the world market and crises. This reinforces the relevance of Marx’s six-book plan on condition that one takes the state and politics more fully into account.

Endnotes

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3 It is fractally organized in the sense that variegation operates on many scales – it is not just evident at the global scale.
4 Minsky (1995) attributes this formulation to Abba Lerner.
5 Wray (2009) gives a good Minskyan review of money manager capitalism.
6 As Minsky died in 1996, this must refer to the East Asian Crisis and/or the Russian crisis with its resulting collapse of Long Term Capital Management. He himself noted earlier examples in the USA and beyond that did not lead to another Great Depression.
7 ‘Minsky’s work on financial markets … is broadly consistent with Marx’s unfinished effort to develop a sophisticated theory of finance that could be integrated with his analysis of production to form a general theory of growth and instability in the capitalist economy’ (Crotty 1986).
8 For a brief survey of their views, see Levy (2000).
9 One wonders whether Brenner still believed this after the 2007 Minsky moment.
12 For a useful discussion of this distinction, see Meacci (1988)
13 Although there is no central register of derivatives, recent calculations suggest that the total global notional (non-cleared) stock of derivatives (exercised or not, regardless of term) has reached one quadrillion USD, which is 20 times global GDP.

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