http://enzofabioarcangeli.files.wordpress.com/2008/04/all-the-subcrime-science.pdf

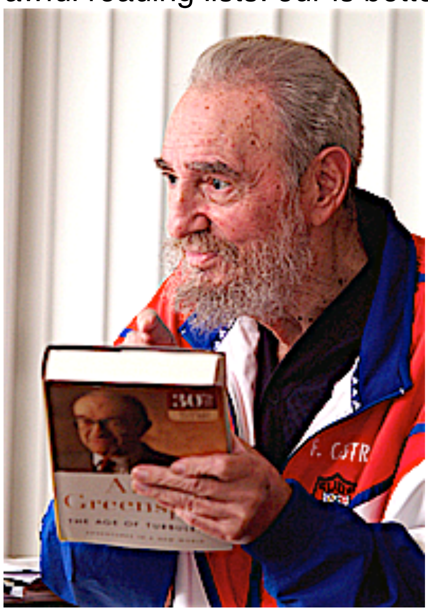
***left: A subcrime civil war victim.*** *No rest, no peace for the working class. Exploitation, relative surplus value, absolute surplus value have no ceiling.* Glenda lost this house. 2007\09\18 picture: foreclosure day, when she was forced out. *(Nikki Kahn - Washington Post)*

# *Essential readings on subcrime crisis: a long wave frame*

## *CONTENTS*



Fidel Castro with Greenspan's book *The Age of Turbulence* (***AP photo***). Tyrans often have awful reading lists: our is better.



Greenspan is not worth reading: no revelation, no scoop, we knew him enough already. Stop! BASTA ! ... la victoria siempre

## Socialism, or vampirised subcrime sublife.

*The revolutionary Adam Smith would immediately recognize both enlightened and shadow global finance, legally or illegally, privately&pirately taxing world trade & production, as an old acquaintance. Here is the East India Co., again! Using 1.5 billion Chindian farmers so as to squeeze the working class, and finally suck their poor wages, their dreams of a decent life - with mortgages and foreclosures.*

*Nation States are striking back, after March 2008 markets' surrender to the Leviathan. Free markets armies retire in disorder. Ignoring 2 centuries of Smithian studies, April 2 WSJ leader (Reform a la Glasgow) fights back the Paulson- Bernanke- Frank bipartisan connection, with a vetero-modern ideological narrative on self-regulation (last Mohicans believing it): after the securitization mania, markets will de-securitize, trade off efficiency for better risk management, be ready for next mania. Problems: Bear Stearns' Rite of Spring is just no.2 of a very long sequence. If deflation will not hit floors soon, recession will degenerate into a depression. Under which new geopolitical and class régimes, will capitalisms find ways out from de(e)pre(ce)ssion? Who will supply fresh blood to post-Bear Stearns generation of vampires? Will BRICS workers accept? Who's next lamb: socialisms or corrupted rentier capitalisms?* *P.12: for whom is the bell ringing?*

# 1. Introduction: 7 theses, 4 faqs and a long wave

*Concurrent crises now on: 1) in housing - mortgage markets, namely US ones; 2) the global shadow financial system meltdown.* [1] *Plus: 3) stagflation from oil and primary resources oligopolies, hyper concentrated markets.* [2] *Here are some disputable and falsifiable hypotheses: it's social science, beauty!*

1. A KONDRATIEV LONG WAVE (1970s +) is exhausting, and was not matched by an appropriate institutional environment (Perez 2002). It was financial, globalisation and mafias Far West: e.g., Napoli`s camorras linking up with China`s Triads (Napoleoni 2008, p.69). FAQs:
    1. Will science, policy and science policy, assisted by "creative destruction" Tsunamis, make room now, for new innovation clusters?

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[1] **Shadow financial system** = A legacy of this trend: the long waves of profits, together with co-evolving business conventions and State regulations, move financial systems into "Blue Oceans" of Far West shadow finance. Late innovations include derivatives, securitization and financial vehicles, among others. Please note that this does not happen in a desert: global over-accumulation disequilibria discharge tensions, monetary capital and resources entitlements stocks everywhere: namely in the Sovereign Funds (SWF), in the hands of savings-investments surplus States. **The current Minsky Meltdown is unique in this aspect:** it is a strategic coordination, Nash game between two poles: shadow system collapse *versus* SWF strength.

**Minsky's post Keynesian** instability model: a) defines financial innovations in Schumpeter's terms; b) applies to them some testable forecasts about bubbles-and-meltdowns: see Section 3.

**Post-Schumpeter neo-institutionalists'** (Orléan 1999) discoveries: a) conventions are self-organising agencies; b) evolutionary **herd behaviours,** are accelerating Minsky Meltdowns in the digital era.

**Chesnais** (2006) finds, in forgotten parts of Marx, Capital Book 3 and Theories of Surplus Value, some precious hints, allowing for a **Political Economy of this transition**, from regulated to shadow finance.

**Blue Ocean** (Chan and Mauborgne 2007) is a managerial fad, interpreting today's "animal spirits". Securitization and subprime applied it successfully to financial and mortgage markets. In synthesis:

| RED OCEAN STRATEGY | BLUE OCEAN STRATEGY |
|---|---|
| Compete in existing market space | Create uncontested market space |
| Beat the competition | Make the competition irrelevant |
| Focus on existing customers | Focus on non-customers |
| Exploit existing demand | Create and capture new demand |
| Make the value-cost tradeoff (create greater value to customers at a higher cost or create reasonable value at a lower cost) | Break the value-cost tradeoff (Seek greater value to customers and low cost simultaneously) |
| Align the whole set of firm's activities with strategic choice: differentiation <u>or</u> low cost | Align the whole system of a firm's activities in pursuit of differentiation <u>and</u> low cost |

[2] Commodities will not deflate across most of 2008, for many reasons: demand decelerates but still keeps going, namely in Chinese manufacturing; in agriculture, price bubbles are even greater; strong commodities market power; bubble demand as refuge goods and quasi-money ($ about to lose its international standard status); refuge markets, partially isolated from the unstable global deflationary economy of the last decade.

1970s - now: a Minsky long wave, over-accumulation and financial instability (Aglietta, Chesnais). Perez Hypothesis: she associates Minsky Cycles to clusters of innovation.


*The Minsky Moment: Comment. The New Yorker* Feb. 4, 2008.
In Minsky, you meet also **Marx, Fisher, Keynes, Kalecki,** and his Harvard professors: **Leontiev and Schumpeter.**

2. Is Marxian Political Economy right: technical change (relative surplus value - SV) is always associated with slavery (absolute SV)?
3. Which is Greenspan's dissipative age legacy to our grandchildren?

2. The inner logic of over-accumulation and over-capacity, typical of the " 20 Glorious years" (1980s-1990s) expansionary phase of the current Long Wave, has fuelled - as everyone expected, exc. criminally blind policy makers à la Greenspan, and his subprime innocent victims - a Minsky financial wave-and-cycle (Aglietta-Berrebi, Chesnais and Minsky).
3. As in the past (last case: Greenspan&Clinton bluff and bubble of the monetary crafted, purely financial and instantly evaporating New Economy - remember the husband before casting your vote to the wife), some social engineering was required, in order to support finance bubbles with an appropriate environment (plancton). This time, it was subprime.
4. 2 million foreclosures are expected in the US in 1 year time.[3] Subprime (subcrime) is a class war intrinsic, necessary to shadow finance: new blood?

   Best choice: US not-so-poor, borderline workers (a family earning $3000-4500, €2000-3000 per month). As long wave end approached, financial horizontal (new clients; Paul McCulley's plancton) and vertical dynamics (derivatives, securitization, vehicles) mutated into Drakula's class war. A cruel episode of aggression against US citizens, namely black and legally resident latinos - in the tradition of such a violent and fully eradicated civil society (Weil 1949).
5. Minsky inversion Moment: the subprime meltdown (Summer 2007) runs back through all its previous channels of financial innovation diffusion.
6. Therefore, the Mortage meltdown is degenerating now onto a fully fledged financial meltdown, a shadow system collapse (Roudini). Accelerators amplify the credit crunch. A 2008+ recession follows, with a high depression potential. 1930-31 key transition was the banks' domino: who can stop it now? China's world factory: how will it slow down?
7. In search of bio-chemical, sierotonin micro-foundations of a macro-depression. The latter should be exploited as a lab, for testing a Unified Theory of Depressions and a unique

[3] Joe Stiglitz, CNBC interview, April 2, 2008.

*mathematical model: all the elements are already there, in separate human sciences, just calling for a unified frame, viewpoint. In our definition of Depression, we conclude that:* [4]

Now micro and macro, Ego and social depression are subject to one and the same crisis of policies and prognosis (and this points to a unified system, calling for a missing unified theory): on the one hand, fiscal, monetary and social policies need an electroshock, a New Deal, a quantum leap forward, otherwise they are ill-suited to fight the new viruses (securitization, subprime, etc.); on the other hand, an entire generation of drugs (exc. 1) is out of patent period, so generic drugs entered the marketplace. This is good news, since some hundred thousands people are in the verge of a depression, because of economic bad news.

*FAQ 4:* **Socialism or sublife savagery (barbarie)?** *Might Crisis Capitalism versions (in unsteady states of turmoil) succeed, where Socialisms failed: to help us coping with, undermining and finally, one day, overcoming them?* The answer is: no, forget old fashioned historicism, any determinism at all. NO: a) until we redefine Socialisms as ecologies of cooperative projects; b) we work hard with\for the exploited, the expropriated, the enslaved, and their solidarity to resurrect. c) "The worst, the better" logic, never was a socialist tactics - it was Lenin-Stalin-Mao fascist democide making. d) In this crisis, there is already too much anxiety, depression and suffering (and the worst will come), requiring immediate political answers: e) in se, for the absolute value of each single being, the Other (Lévinas). f) Also to contrast demagogy, new fascism, dirty tricks by dominant rentiers. g) Institutions and the State, regions and space matter (mistrust opposite myths: it is counter-information by global K). h) They are the battlefields of an acute class war where weaker, less organised groups are vampirised: see LA favelas. i) After unequal growth and class -education -gender -race divides, it is grapes of unequal recession wrath season, now. [5] j) This crisis is rooted in hyper-procyclical Greenspan's policies: elsewhere he'd be WANTED. In US rentier society, he's deified. k) The WSJ is obliged to conclude its April 2 leader, defending Wall street wizzing kids from Washington-Fed attacks, by saying: "Today's credit panic isn't some "crisis of capitalism" that needs some new layer of regulation". l) Truth is: match end bell is ringing for all the bloody rentiers, right and left, anti- and pro- regulation. [6]

A 2000-2050 DEFLATIONARY LONG WAVE. Chindian adding up to global Labour Force, suddenly up from 1.46 to 2.93 bn, was a 2nd Great Transformation (Polanyi); the effects were chain-linked and epochal:

- a fast convergence of wages towards, sometimes even below Labour Force reproduction costs;

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[4] http://enzofabioarcangeli.wordpress.com/arcapedia-are-the-prozac-for-mass-psychology/ Depression = the "down" phase of a bipolar human system going through a cycle; euphoria, inflation and self esteem, is followed by a transition to a short- or long-term deflation, introversion and under-esteem. Chronic depression does not exhibit reaction automatisms at floor reaching, opposite to light and\or short run depression.

[5] The Open Dictionary's definition specifies a wrath continuum: from epic to ordinary (class) belligerence. *The noun "wrath" has two senses: 1. wrath -- (intense anger (usually on an epic scale)). 2. wrath, anger, ire, ira -- (belligerence aroused by a real or supposed wrong (personified as one of the deadly sins)).*
"Furore" is the Italian word for wrath-1, adopted in Steinbeck's book and Ford's film title translation.

[6] We do not need a 2008 Manifesto, for a revolution coming into the streets. If rentiers victims had to read the General Theory and the Financial Times, capitalisms would be blown out in an overnight revolt.

- *the dismantling of Western, namely the US middle class, precipitating it towards debt and literally proletarian social conditions (you only have children, and even get trapped into the Americam Dream illusion of buying a property for them: Napoleoni 2008, pp. 44 ff., It. ed.; Jorion 2007);*

- *a cluster of regressive "social innovations" in a variety of quasi-slavery, precarious and flexible conditions;*

- *a maintenance of literal slavery, but on a more marginal role, since the Chindian countryside offers a much cheaper and safer way to storage an infinite IRA at the border of human life, with lower "faux frais", compared to the sunk costs of an expensive and cooperative mafia-police-sheriff repression of eradicated urban slaves (by sheriffs we refer to the neo-fascist Liga Mayors in Italian cities).*

- *From 1-2-3-4 labour markets Great Transformation: a windfall mass of many trillion $ profits, by cheap absolute surpus value (ASV), an order of magnitude bigger than ICT related RSV (Relative SV);*

- *channelling these sudden ASV profits into new financial outlets;*

- *the supply-side push toward the last securitization wave of so called Financial Innovations;*

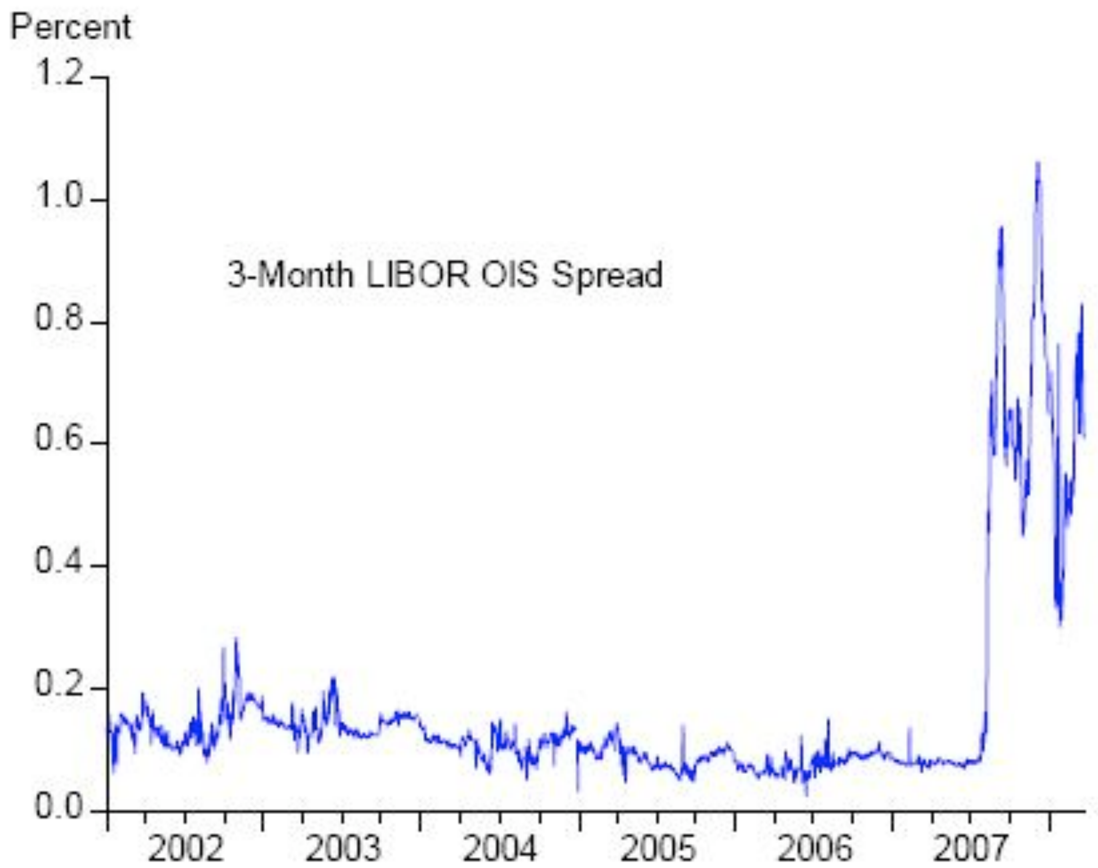
- *the inevitable burst of such an artificial and unsound bubble, stemming from an ULTRA-SLAVE over exploitation of 2 bn poors, plus another more than 2bn immiserizing workers and middle classes.*

*Finally, an anomalous TSUNAMI OF DEFLATION, DEPRESSION. As our key references, such as Aglietta-Berrebi, Chesnais and Napoleoni show: the current (2000-2050 ?) LW is unique in history, coming just after the 2nd Great Transformation. It carries a paradox. On the one hand, a FEMINISM-SOCIALISM MIX IS STRICTLY NECESSARY as a way out. On the other hand, an apparently solid Rentiers Ancient Règime weakens exactly those oppressed social forces, the potential and actual carriers of a Feminist-and-Socialist alternative.*

# 2. Crisis transmission and the entropy of policies

### *Fig. 1. Banks' lending risk spread*
*source: fig. 2.*

The graph below is an attempt at isolating the "expectation risk" of interest rates from lending and so capturing "pure risk" in interbank lending. It measures the Fed's favoured metric for interbank lending risk - the OIS to Libor spread:



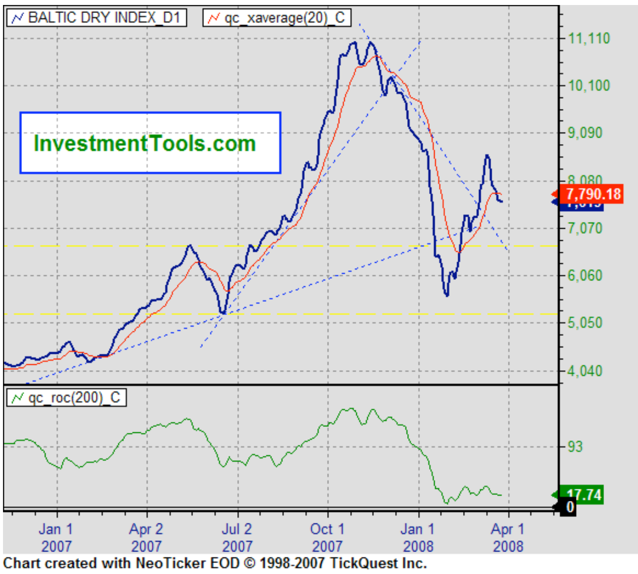

*Looking at spreads going back to December 2001 illustrates just how unusual this episode has been… the spread on August 9 was 25 basis points above the pre-August 9, 2007 average. That is 7 times the standard deviation before August 9- more than a 6-sigma event. The mean through March 20 was 16 standard deviations above the old mean, which under normality would have been an extraordinarily improbable event.*

**Beware always of guesses, forecasts and anticipations, even our ones. As many Authors quoted above say (e.g., Chesnais 2008), this is a specific, unique crisis - forget the textbooks. Unicity is rooted both diachronically (in all the learning and unlearning, the Penelope's doing and undoing, in the previous history and long wave now coming to a turning point) and synchronically: in current economic, social and class relations.**

As for the latter, it is very hard to predict in advance how Keynes, Leontiev and Minsky classes of transmission mechanisms will actually operate, hic et nunc, on the "rough surfaces" of uncharted, unexplored territories: those of the NEW relational complex systems - allowing one to move: losses across shadow and open finance; real disequilibria between regional economies; profits, rents and wages across and intra-social classes.
In LA bidonvilles now, it's Grapes of Wrath time again: the temporary latino migrant worker (who lived there and was not interested to the American Dream of buying a house in the US), is displaced by subprime victims, because almost no one is supplying to the latter the rehousing facilities, urban planning textbooks and best practices are talking about. An advanced and model democracy, not even capable to talk (even less to practice) economic, social and urban planning, is bound to face hard times now, and to collect immiserising grapes.
Gillian Tett and Krishna Guha (FT 2008\03\19, p.9: Borrowers brace for the 'financial accelerator'; see also our blogpost at the same date) argue that:
- Bernanke's (the academic) "financial accelerator" is amplifying the credit crunch, therefore its real impact;
- even optimists admit the implosion of the shadow financial system, will end up hurting real-economy borrowers.
- We add: realists say it already started to hurt in late 2007. See Fig. 2 below: the BDI, indexing world dry freight rates, pointed already in Nov.-Dec. to a slack demand of raw materials (oil excl.). But demand deceleration has not yet stopped primary goods inflation. On the contrary, ferrous minerals producers plan to fuel prices, by shifting most shippings from pre-contracted prices to spot markets: this introduces a stagflation component. It restraints Central Banks (exc. the Fed) from lowering interest rates too much, so the subprime-foreclosures mechanism is still on, house prices carry on falling - no ceiling, and no one can tell which is the real "value" of banks and shadow financial units.

In early 2008, all the indexes show a real economy recession taking momentum and spreading from the US. With no regional decoupling: only differential effects because, e.g., of national norms and border controls of overnight money flows; real economy openness and specialisation - fragility to Chinese manufacturing (or Indian services) competition.

*Fig. 2. BDI, Baltic Dry Index. Exponential average in red.*
*Source: Baltic Exchange. www.investmenttools.com/futures/bdi_baltic_dry_index.htm*




## An intro to hottest policies' debates:
### de(e)pre(ce)ssion's 7 cardinal sisters - virtues.
### Remedies, wives for 7 capital brothers - vices.

**Eptalogue: 1 States command, markets have no power; they just obey, execute and implement collective, societal and system missions. 2 Challenge for the Rentier States, that provoked this crisis by retiring and deregulating: how to avoid chaos-collapse-domino, after the failure of a variety of markets? 3 Guilty to the bar: time is ripe for - literally - a Keynesian massacre of rentiers, their corrupted managers and politicians. 4 The size of the State rescue objectively poses a question of system transition, and awakes a sleepy Socialism. 5+6=7: endogenous institutions + self-referential social systems = intrinsic difficulty of a solution and way out from the long recession, or depression.**

1. **Minsky won the bet versus Chicago.** The latter did not survive to the great Milton Friedman for longer, and finally **died at dawn, Friday March 14, 2008** (on Bear Stearns' day: Section 4 here).
2. Since we entered, in mid-March this year, the **Leviathan Millennium (2008-3000 circa)**, the States will massively intervene, after a hyper-short parenthesis (just 3 decades) of anti-State free time: but **how effective will be the untrained State muscles?**
3. After March 14-6, oil into firing debates on credit&fiscal policies: **moral hazard** of rewarding again those fucking rentiers-vampires, that already gained 6-0 the early sets of the subprime match.
4. **Leaders' war.** March 29 FT (*Not yet time for a bail-out of banks*) *versus* March 22 The Economist (*Wall street's crisis*): both over-Bullish but policies clash. FT **delays** a bail-out fiscal policy, conditional upon sacking the rentiers (**"it should do so only over the dead bodies of shareholders and management"** - FT I love you). [7] The Eco. advocates hyper-fiscal policies **soon**, erecting floors "either in housing, or in asset-backed securities". FT objects housing prices must stop to a market floor before, otherwise you can't price securities. At 19th C The Eco., they found a Hegelian synthesis: neo-Leviathans will buy the open and the foreclosed apt.s: whatever. **Socialist times. Someone should tell Wall Street kids and their Journal: boys, sorry, but it's the 3rd Millennium.**
5. All this policy makers (hyper-)activism is and will always be part of the process (Roudini's blog, Feb. 8), in **a self-referential crisis system** (Niklas Luhman), where no one is sitting outside the system. **As in an ancient Myth, financial accelerators ate Bernanke himself: their own father.** The fact, discussed in Section 4, that on March 14-16 the Fed has stopped an immediate domino effect starting form Bears Stearns, doesn't change the reality of the crisis: it changes its representation**.** **Now freemarket, Reaganism and the antiState are dead forever, and will never resurrect.**
6. Minsky's call for an institutions-specific, even a capitalisms-specific analysis (note 24) might be the compass exploiting the fixed point of an **endogenous institutions axiom.**
7. The latter fits well with self-referential social systems theory: **this couple** is full of well known (in their proper cognitive and policy theoretical domains), important consequences for:
   - planning theory and practice (see a Sistemi Urbani's special issue, early 1980s);
   - theory and practice of finance (self and non-self) regulation;
   - social and economic policies current stalemate:
     (a) uncertainty about policies, even their basics (ends, means and their matrix).
     (b) *Pars destruens*: traditional monetary and fiscal policies are close to max entropy.
     (c) *Pars construens?* As time goes by and the meltdown burns, ways back to an effectiveness of **social** and economic policies in de(e)pre(ce)ssion urge; this blog will monitor this key field, fertilised by Minsky (Randall Wray 2007; Galbraith, Giovannoni and Russo 2007).

## *Conclusion*

*The revolutionary Adam Smith, would see enlightened (regulated)-and-shadow global finance, privately&pirately taxing world production&trade, somehow as a new East India Co. source of evils - exp. for 3rd World Malthusian masses. We do not dare to walk into his footprints: we'd be called and persecuted as anarchists&terrorists. We are right-wing*

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[7] Roudini's BIBLE: First fully wipe out shareholders, then fire all the senior management and have the government take over such a bankrupt institution for orderly liquidation before a penny of public money is wasted in bailing it out.

*Political Economists, against the wrong, for: social justice, socialism; the enslaved and the exploited; 1.5 billion Chindian farmers enrolled in the GIRA (Global Industrial Reserve Army) in order to blackmail the subprimely vampirised working class. The families that are not allowed to American Dream any more.*

*Drawing on a completely false and stereotyped Scottish thinker, Apr. 2, p.11 WSJ brilliant leader (Reform a la Glasgow) fights back the powerful Paulson- Bernanke- Frank bipartisan connection, with a vetero-modern ideological narrative on self-regulation (coherently, at WSJ they differentiate, and do not follow the new etero-regulation fashion, and the mea culpa of former self-regulationists, they are still fighting welcome socialism):*

- *REGULATION THEORY: "more power for the same regulators, who failed to use the power they already have to prevent the current crisis. ... without a hint of irony, the Treasury and financial press declare that the solution is for the Fed to become a "Supercop"." (WSJ, ibidem)*

- *SELF-REGULATION: after the securities mania, markets will de-securitize, tradeoff efficiency for better risk management, be ready for the next mania. Problem: new blood for vampires? BRIC working class available for the ritual sacrifice? Such a false antithesis, reflects a deep crisis in NY & London finance; their fight to be as less regulated as possible (with State cash), in order to position themselves in the next bubble (in 2012 or 2020?), against Asian competition (Mumbai, Shangai and Tokyo).*

- *MARXIAN SYNTHESIS: The crisis has no determinist effect on social forces, leaving it to the political initiative and class consciousness. But at least some material processes are determined, given as a frame: less total income (smaller cake), workers weakened by looser labour markets, and distributive shares (already at historical lows) further worsening.*

*A political process is called to make a FLOOR to mass immiserization, an artificial barrier and counterbalance to the 1.5bn IRA (Industrial Reserve Army) based deflation. A New Deal: bourgeois States, for once, at part-time workers' service. The comeback of a Socialist State interventionism in 2008 goes toward bailimg out bankrupt banks, speculators (socialize losses). But we are at crisis start: we have years to organize the rank and file.*

*But the analysis is not complete, without a deeper understanding of the political and social roots of the deflationary age we live in. Given such an age frame, it is not so important whether it will be (we don't now yet) a 2008-10 deep recession, or a 2008-20 depression. The matter is that we live structurally in such an age: for at least 40-50 years, until circa 2050 (see Napoleoni 2008, p. 40-41 It. ed.: analysis of Harvard professor Richard Freeman), it will be an entire post-com(munism) and post-dotcom deflationary long wave: with a 50% global unemployment rate, only very slowly down (SA townships with such rates were an exception in the early '90s, and become an average in the late '90s); short bubbles and much longer recessions.*

*Chindian IRA addition to the global LF (Labour Force supply), increasing it suddenly from 1.46 to 2.93 bn, was one of the greatest events in history. This 2nd Great Transformation (paraphrasing Polanyi) from Real Socialisms back to Capitalisms, has doubled the LF; the effects were amazing and chain-linked:*

1. *a fast convergence of wages towards, and even below LF reproduction, survival costs;*

2. *the dismantling of Western, namely the US middle class, precipitating it towards debt and literally proletarian social conditions (you only have children, and even get trapped into the Americam Dream illusion of buying a property for them: Napoleoni 2008, pp. 44 ff., It. ed.; Jorion 2007);*

3. *a cluster of "social innovations" in a variety of quasi-slavery, precarious and flexible conditions;*

4. *a maintenance of literal slavery, but on a more marginal role, since the Chindian countryside offers a much cheaper and safer way to storage an infinite IRA at the border of human life, with lower "faux frais", compared to the sunk costs of an expensive and cooperative mafia-police-sheriff repression of eradicated urban slaves (by sheriffs we refer to the neo-fascist Liga Mayors in Italian cities).*

5. *From 1-2-3-4 labour markets Great Transformation: a windfall mass of many trillion $ profits, by cheap absolute surpus value (ASV), an order of magnitude bigger than ICT related RSV (Relative SV);*

6. *the immediate necessity to channel a majority of these sudden ASV profits into new financial outlets;*

7. *the supply-side push toward the last securitization related wave of so called Financial Innovations;*

8. *the inevitable burst of such an artificial and unsound bubble, stemming from an ULTRA-SLAVE over exploitation of 2 bn poors, plus another more than 2bn immiserizing workers and middle classes.*

9. *Finally, the start of an abnormal 2000-50 LW, escaping the previous Schumpeter-Perez Laws, or at least shifting the way they work. As our key references (see the Bibliography below), such as Aglietta-Berrebi, Chesnais and Loretta Napoleoni show: the current LW is different in nature and unique in history, coming just after the 2nd Great Transformation. It carries a deflationary burden and paradox:*

10. On the one hand, some FEMINISM-SOCIALISM MIX IS STRICTLY NECESSARY. Given our social knowledge frontier, it is the only way out the Sapiens has now, in order to cope with a suddenly doubled capacity, without falling into repeated environmental, military and social disasters traps.

11. *On the other hand, the combination of reactionary factors in an apparently solid Rentiers Ancient Règimes (in fact, full of contradictions - we only can't see yet, how they might converge towards a Revolution) weakens those oppressed social forces, carriers of a Feminist-and-Socialist alternative.*

12. *Hypermodern dual ethics, not so different from the one of the Dahomey's king in slave trade times (Polanyi), can be interpreted by Political Economy in a Marxian frame (relative\absolute surplus value):*

*- on the one hand: we are ethical, well behaved, and extract relative surplus value via "clean" ICTs; if our wages do not precipitate, we might be proud driving a Toyota hybrid, and feeling ecologically responsible.*

*- On Loretta Napoleoni's dark side of globalisation, we play the blackmail, mafia, pollution, rape, torture and total war game; and pay for a slave 10% of its value in ancient Rome: deflationary fundamentals.*

## 3. Minsky's FIH - Financial Instability Hypothesis

Minsky annual conferences, whose multimedia materials are delivered by the Levy Institute (www.levy.org), testify how much his approach is well alive, his reception wide. And the fact that - like the greatest artists -, his fame reached, from economists and expert circles, even the layman post mortem. A study of Conference proceedings is strongly recommended, together with Minsky's works and the above bibliography.
Here we will just read and shortly comment his later, 1992-93 (a Levy WP, then chapter of a HB) resumé of his most well known corpus, that he had elaborated and revised much earlier.
The Hypothesis - he starts the paper saying - is both a theory, and a series of empirical, i.e. falsifiable propositions. As a theory, the roots are in Keynes, and Schumpeter's view of money and finance.
The theoretical argument assumes a precise, historically-institutionally given, and well defined society (no "Robinsonade" here: cfr. Marx versus Ricardo). The capital development of an industrially advanced, financially complex capitalist economy (Minsky quotes Keynes again here, but Marx would not be out of place), requires exchanging present money (buying resources for production) for future money (profits: here in the Political Economy sense, excl. entitlements to their redistribution).

> As a result of the process by which investment is financed, the control over items in the capital stock by producing units is financed by liabilities -- these are commitments to pay money at dates specified or as conditions arise (p. 2: we refer to pages in the May 1992 WP).

This is managed through financing supplied by a credit structure, that was well defined by Keynes: Minsky quotes here a long passage from p.151 of the 1971 ed. of his *Essays on Persuasion*.

> This Keynes "veil of money" is different from the Quantity Theory of money "veil of money". (...)
> In a Keynes "veil of money" world, the flow of money to firms is a response to expectations of future profits, and the flow of money from firms is financed by profits that are realized. (p.3)

The "realized (vs expected) profits", imply a cash flow validation, or invalidation, of a given liability structure of businesses, according to performances and their drivers. Here comes in Minsky an institutionalist novelty, compared either to a Ricardo- Sraffa model or a Wicksell -neoAustrian one: he refers to the entire financial history of Merchant Capitalisms across centuries and trade flows, but he also projects this to modernity. The "several layers" that follow are, in a sense, a synchronic modelisation of that evolution:

> Thus, in a capitalist economy the past, the present, and the future are linked not only by capital assets and labor force characteristics but also by financial relations. The key financial relationships link the creation and the ownership of capital assets to the structure of financial relations and changes in this structure. Institutional complexity may result in several layers of intermediation between the ultimate owners of the communities' wealth and the units that control and operate the communities' wealth. (p. 4)

When capitalist economies enter the modern world, new phenomena add up to this basic businessman-banker couple: households borrow as well; governments carry on borrowing at a large scale, but also emerge at the other side of the table as refinancing agents; finance internationalises systematically.

> In particular, the much greater participation of national governments in assuring that finance does not degenerate as in the 1929-1933 period means that the down side vulnerability of aggregate profit flows has been much diminished.

> However, the same interventions may well induce a greater degree of upside (i.e. inflationary) bias to the economy. (p. 5)

As we will discuss later, even Minsky's stylisation (not necessarily his pure and core theory, the analytical part) must be historically framed, as - you see - he is careful and precise in relating theory to history (no Robinsonade). In between the postwar economic miracles "Keynesian Glorious 30s" (drawing on unlimited educated and trained labour force supply, unexploited knowledge pools), and the microelectronics-driven "Schumpeterian Glorious 20s", most world economies fall into resources availability, dynamic scarcity boundaries, and oligopolistic-distributive stagflation traps. Macroeconomic régimes become inflationary in the 70s-80s: we will see, later on, that he draws "inflationary" lemmas from his theorems, although what we most need now, are the deflationary ones.
The paper now adds a **second building block to the theory**, after the **first one (Keynes-Schumpeter credit to the producing-entrepreneurial unit,** and General Theory basics). A new feedback loop furtherly specifies the original, radically anti-marginalistic Keynes' view of investments:

> The financial instability hypothesis incorporates the Kalecki (1965) -Levy (1983) view of profits, in which the structure of aggregate demand determines profits. (...) Expectations of profits depend upon investment in the future, and realized profits are determined by investment: this, whether or not liabilities are validated depends upon investment. Investment takes place now because businessmen and their bankers expect investment to take place in the future. (pp. 5-6)

The outcome is a cumulative, virtuous\vicious circle of "investments by means of investments", a powerful tool for cyclical and long wave systems behaviour.
A **third building block**, is a home made value added: it is an impressive, powerful stylisation and view of **contemporary financial innovation, the drive towards shadow financial systems.**
Basically, you apply Schumpeter even back to the "banker" himself (all intermediaries in finance). FIH theory takes banking seriously as a profit seeking activity: therefore finance agents will strive to innovate in the assets they acquire and the liabilities they market. Now an original taxonomy is introduced:

> Three distinct income-debt relations for economic units which are labeled as hedge, speculative, and Ponzi finance, can be identified. (p. 6)

1) **Hedge** financing units fulfill ALL payment obligations by their cash flows, due to a high equity financing/ total liabilities ratio.
2) **Speculative** ones (indebted governments, most banks and corporations) cannot repay the principle out of cash flows, and issue new debts to meet maturing debts.
3) **Ponzi** units cannot even pay interest due on outstanding debts by cash flows: they sell assets or borrow (note: now they can also cash from derivatives and securities).

Frankly, we can't see why this income\debt taxonomy should be obsolete by now, as critics argue. The continuation of the **same trajectory towards ever more leveraged financial units** doesn't change the substance; it adds further degrees of intermediation, and eventually leads to a new post-Minsky class of**:**

4) **Hyper-Ponzi** (our def.**)**. Unprecedented low equity ratios lead to sell assets - borrow - or issue derivatives: both to face payments, and to prevent liquidity crises and bank runs, when securitization castles (a way to defer payments indefinitely, by making liquid the illiquid) need some ordinary maintenance, extra-ordinary repair, or just collapse. [8]

The paper ends up with an axiomatic structure of falsifiable, linked propositions:
THEOREM 1. "The economy has financial regimes under which it is stable, and financial regimes in which it is unstable."

---

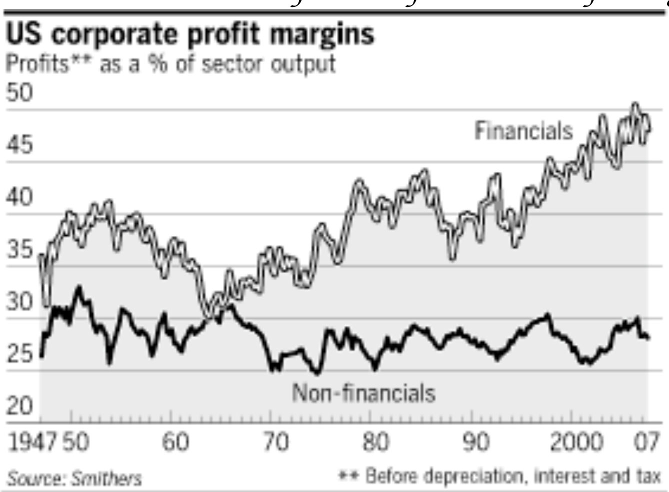
[8] At de(e)pre(ce)ssion we are basically microeconomists and innovation diffusion scholars, on finance we are amateurs: we introduce a new class and a lemma, only to mark and make a point (see the discussion with Davidson above, in the previous Section), waiting for support from field experts and the Levy Institute.

THEOREM 2. "Over periods of prolonged prosperity, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system".
LEMMA 2.1. In such prolonged periods, the finance structure moves from type 1 to 2&3.
LEMMA 2.2. In an inflationary economy with many type-2 units, if policy makers apply tight monetary constraints, "speculative units will become Ponzi units and the net worth of previously Ponzi units will quickly evaporate" (p. 8). [9] A post-Minsky udate is:
LEMMA 2.3 - Debt deflation (Wry 2007). In a deflationary economy with many type 2&3 units, when policy makers do not apply tight monetary constraints and regulations, a financial bubble will shift the spectrum towards types 3&4, until the bubble evaporates.

No need to underline how powerful are the "Lemmas". Minsky advances now a quasi-Theorem 3, characterising a Schumpeter -Kalecki theory of endogenous business cycles:
PROPOSITION. The FIH does not rely upon exogenous shocks in order to generate business cycles. They are compounded of (i) the internal system dynamics, and (ii) the systems of interventions and regulations that are designed to keep the economy operating within some boundaries (in Section 2, we re-read point (ii) in the light of systems theory).
Theorem 2 "prolonged prosperity" creates a long run link (postwar Janossy's economic miracles and the *30 glorieuses*; Kondratiev long waves: the last *20 glorieuses*): through Schumpeter, and Ricardo-Marx's forces delaying profits entropy. Perez (2002), Aglietta-Berrebi (2007) and Chesnais (2008) analyse the long run.
Fig. 2: a view of the increasing amount of US profits appropriated (Chesnais 2006) by financial units and their rentiers. **The trend started in the 1960s, and is still on 45 years after.** While profit distributive shares have a zero trend in manufacturing plus non-financial services, in financial ones they moved **from 30% close to 50%**. There are two major oscillations around such a fast trend, that has redefined the inner nature of US (and UK) capitalism as purely rentier: a 1977-85 financial rents bubble; its 1987-94 implosion, cured by the trend-resetting Greenspan-Clinton bubble. The revolutionary Adam Smith, would see open-and-shadow global finance, privately taxing world production-trade, as a new East India Co.: the source of all the evils, namely the immiserizing 3rd World masses. We do not dare to echo him: we'd be isolated as subversive anarchists.

*Fig. 2. US finance appropriation of world profits, 1947-2007*

*Our own Smithian title. Reprinted from T. Wolf's blog, FT* [10]




[9] Please note the **inflationary** condition. If we follow Aglietta-Berrebi and Chesnais' analysis, we live now in a **deflationary**, low cost world. Therefore we need a post-Minsky "Lemma 2.3", specifying the financial system dynamics under these new conditions. A work-in-progress proposal follows.

[10] Data do not add up to 100%, since they are not shares of total profits, but gross margins over VA.

## *4. The crisis on\of the media*

BREAKING NEWS about NEWS themselves. *An **information market failure** in the* "societé du spectacle": *media can't represent the show on stage in Wall, Mean and Favela Streets theaters - script by H.P. Minsky, plus street improvisations.*
Daily news, and many special reports on subprime. We make best choices, so the news market failure will be scarcely represented here (main exc.: neoClassic Citizendium & neoAustrian Wikipedia at Section end).

## *A VULTURE AND A PREY*

Real people behind capitalist roles
Thomas Montag and Glenda Ortiz

Thomas Montag

Glenda, as many other preys, had to pay $3000 per month, out of $4200 family earnings (her salary plus her husband's one). Thomas' **Celestial** Human Capital has a market value estimated around $100 million (at a 5% rate, it generates $5 million per year, $400,000 per month: only 100 times the Ortiz family earnings).

**WSJ**
Merrill Pays Celestial Sum For Street Star
By SUSANNE CRAIG
May 3, 2008; Page B1

Mr. Montag, 51 years old, will receive a payout of **$39.4 million** for 2008. On top of that, Merrill Lynch will buy Mr. Montag out of holdings in his previous employer, Goldman Sachs Group Inc. (est. cost: at least **$50 million**). When Mr. Montag starts Aug. 4, he also will be paid an **annual salary of $600,000**. A compensation package quite normal for a President in a Wall Street major, according to the WSJ.
Moreover, Montag is expected to payoff Merrill:
- he ran Goldman's trading operations successfully across subcrime turmoil, until he left in late 2007;
- Merrill won a long and complex auction to hire him;
- he will be Head of Global Sales and Trade;
- here is the full text of his contract;
- his new job should be easier: according to Finch data, Goldman is much more exposed to toxic securities than Merrill (with Morgan Stanley, the top 3 US financial operators); see our analysis in

http://enzofabioarcangeli.files.wordpress.com/2008/05/guess-next-bank.pdf

2008\03\27 European state-of-the-art: **PER CHI SUONA LA CAMPANA?**
Mais pour qui sonne le glas?
www.nouveleconomiste.fr page de politique cette semaine, p.6: **Henry Lauret**

La crise bancaire sera-t-elle le grand accélérateur à neutrons d'un nouvel ordre mondial, multipolaire, chaotique, hétérogène, concurrentiel, compétitif, *"avec des capitalismes qui utiliseront tous les procédés mais garderont une âme nationale"* (Hubert Védrine)? Cercle des économistes (pres. J-H Lorenzi): **"La**

**guerre des capitalismes aura lieu".** La nouveauté que l'article signale des coulisse du Vieu Continent: le **Capitalisme franco-renan** perde un peu de son complexe d'inferiorité envers le régime anglo-saxone, qui a substitui le *brand&stock equity* à la valeur ajoutée (Aglietta).

2008\03\22 Easter's eve of suffering with no hope left any more. Not even wrath. Now, a remarkable exception to the news failure: **actually a model of web-interactive, real inquiry journalism.** It also has a touch of feminine style, that makes it a **rare pearl.**

# "She no longer dreams of owning a home in America" - a home allowing her to see the daughter she left in Honduras 9 years ago!

**Brigid Schulte (WP) went to talk with Glenda Ortiz** in Virginia and was capable of transforming her story into a Classic. In **Comments** to her paper, you'll find scarce sympathy towards the subprime victim. But MorganaLeFay, a Commenting Attorney, adds more to the picture of a bandits chain cheating and acting illegally (on bubble 4ever hypothesis): "What will actually happen is that the guilty [seller] will go free and you and I will eventually bail out the bank." But, if the '30s are back, **Steinbeck and John Ford** might be back as well: we must tell and listen to the story of every single proletarian and expropriated.

http://enzofabioarcangeli.wordpress.com/2008/03/22/let-us-pursue-the-rentiers-throwing-families-into-the-street/ **The bio-politics of sub-prime**

Washington Post

## 'My House. My Dream. It Was All an Illusion.'

Latina's Loss in Va. Epitomizes Mortgage Crisis*. Glenda Hortiz, an immigrant from Honduras into Alexandria, Virginia, was forced out of her home.* Looking back, Glenda Ortiz can see she did everything wrong when she bought her house in 2005.

## In fact, to understand the housing crisis that has swept the country, one need only listen to the tale of the Ortiz family.

By Brigid Schulte.

We agree with her sentence, to which we added the red&bold: we actually think this is a **must** essay in the social science of this recession (see Section 2).

## AT THE ECONOMIST, THEY READ MARX TOO MUCH. Too less of Minsky and his outstanding pupil Roudini?

March 22, 2008 "Wall Street's crisis" The Economist special report is worth reading. But **we suspect old Karl would be blogging from British Library desktops (Friedrich didn't buy him an Apple yet), paying much less attention to The Economist today, than he used to.**

**The WSJ** tried hard to ignore the very existence of the crisis, but smartly detected Minsky Moment's feelings since from the start, due to its adherence to the Wall Street floor.
**The Economist** betrays its own sacred tradition of rigorous (although neoclassical) economic analysis. We do not deny securitization and financial innovations will not take off again sometimes in the future, but in which context? They ignore the Keynesian deflationary age we live in. Although later on, reality will bite more on their columns, correcting their over-optimism on the short and long term: see May

Before Easter, one of the most dramatic weeks in economic history:
# http://enzofabioarcangeli.wordpress.com/2008/03/15/bear-stearns-and-bearer-markets
our longest blogpost until now, tells you the salients of what happened and what we were understanding in the making of **that turnaround of History. From milestone, epoch-making March 14 to the 19th,** day by day. The week Holy Capitalism died and resurrected (with a lead on JC Superstar), but there was a trick, a change of person.
The dead one was a Godly, Holy Capitalism. The resurrected one was a human being: an old, declining, depressed Capitalism in need of help, and deprived of self-sufficiency.

**2008\03\20 Rev. Jackson on Government Help in Financial and Subprime Crisis**
CHICAGO (March 20, 2008) – The federal government needs to step in to relieve the current economic crisis, said Rev. Jesse Jackson at Thursday's 10th annual LaSalle Street Project Symposium. "The foreclosure crisis is creating a major shift in wealth. (...) The loss of equity is driving the current recession, and federal intervention is needed." A bailout on Wall Street is needed because it is the source of this crisis, he said, but homeowners need help to save their homes through the restructuring of loans. According to Martin Gruenberg, vice chairman of the Federal Deposit Insurance Corporation, last year 1.5 million homes were put into foreclosure; 1 million of them had subprime mortgages. Of those purchases, 54 percent of the borrowers were African-American, 47 percent were Latino and 18 percent were white.

**2008\03\17 Monday (Christians' Holy week)**

# Wall Street awakes after Fed blitzwar

Day after a 1931-32 nightmare weekend: the Fed stopping the run on financial banks, an inch before a catastrophic world banking crisis. Fed bailed out Bear Stern through JP Morgan Chase, and gone back (first time since then) to 1930s norms, allowing direct overnight help even to a list of top financial banks. [11] Prof. Roudini's analysis today (he had been **the only one to forecast beforehand every detail of this drama**): A Generalized Run on the Shadow Financial System; policy implications follow:
- The Worst Financial Crisis Since the Great Depression is Getting Worse…and the Need for Radical Policy Solutions to the Crisis. March 19: It is now clear that the US and global financial markets are experiencing their worst financial crisis since the Great Depression. And in spite of desperate and radical actions by the Fed this crisis is getting worse.
- Should Securities Firms be Regulated and Supervised like Banks? March 23 (already quoted in our bibliography as Roudini 2008 b, here at p.6).

[11] FT, Thursday 08\03\20, pp. 2, 16: Morgan Stanley, Goldman Sachs and Lehman Brothers [i.e., the 3/4 left US generalist and larger financial banks, exc. no.1 Merrill Lynch] all said yesterday that they were planning to borrow money directly from the Fed after a special lending window for primary dealers opened on Sunday. They said there should be no 'stigma' attached to using the facility. [Stigma = **trust crisis** and higher prob. of a Bear Stearns-like run by client hedge funds; cfr. Minsky 1993, discussed here in Section 3]

"The financial institutions who created the crisis are being bailed out, while the people, who are the victims, are being left behind. Sub-crime crisis is driving the entire economy, domestically and globally, into recession. It's time for bold solutions that measure up to the scope of the problem. President Bush, as he did in response to Katrina, is offering too little, too late, and helping too few people." The failure of Bear Stearns, JP Morgan's acquisition, and government bailout raise several issues. "So far, the mortgage crisis has resulted in loss of homes, loss of jobs, and the spillover effect is devastating entire cities, counties, and states that rely on property tax revenue to provide services to their communities. We need a comprehensive government plan that stops foreclosures and restructures loans for homeowners; not one that just provides bailouts for the firms that created the crisis and are now facing the consequences of their irresponsible, unethical and, in many cases, illegal practices," concluded Rev. Jackson.

*Daniel Acker/Bloomberg News*: New York Stock Exchange floor on March 17

**2008\03\16** Christians' Palm Sunday. Washington Post: http://www.washingtonpost.com/wp-dyn/content/article/2008/03/15/AR2008031502404.html

# Suffering in Silence Over Foreclosure

In Upscale Md. Subdivision, Few Know the Troubles Neighbors Face. By Ovetta Wiggins

*From Perrywood (a place for **affluent** African Americans, Black Bobos). Nonetheless:* African American homeowners and other minorities are more likely than non-Hispanic white borrowers to be saddled with the subprime loans and adjustable-rate mortgages that put them at greater risk of losing their homes. **Black women** were five times more likely than white men to receive subprime loans in 2006, a report by the Urban League says.

**2008\03\14, Friday**. Across centuries, March 14 will be celebrated worldwide as "Liberation day" of the Sapiens form neocon-freemarketeer bullshit. **Dramatic dawn at NY**:

At about 5 a.m. Friday, regulators including New York Fed Chief Timothy Geithner, Federal Reserve Chairman Ben Bernanke, Treasury Secretary Henry Paulson and the Treasury under secretary domestic finance, Robert Steel, convened by conference call. At the end of the call at 7 a.m., the Fed had decided it would offer the [Bear Stearns rescue] loan.

T. Wolf, March 25 FT: **The rescue of Bear Stearns marks liberalisation's limit.**

www.aleblog.com: *Bear Stearns shares today* - above right

Remember Friday March 14 2008: it was **the day the dream**

**of global free- market capitalism died** - BY FED DECISION, on Bush behalf (Soros 2008). There will be far greater regulation of complex (shadow) financial institutions. Joseph Ackermann, CEO of Deutsche Bank: "I no longer believe in the market's self-healing power". Deregulation has reached its limits. Comment: financial capitalism is definitely not so Prigoginian (self- healing & organising) as it was supposed.

**Right: Bear Stearns shares falling today**, after the overnight rescue. More on Bear Stearns, March 14-19: http://enzofabioarcangeli.wordpress.com/2008/03/15/bear-stearns-and-bearer-markets/

## 2008\02\26

### LEX and WOLF: FINANCIAL TIMES? NO: TOO MUCH ROUDINI!

Multimedia FT special report: http://www.ft.com/indepth/creditsqueeze

This multimedia snapshot brings together coverage of the mounting crisis and its impact on the markets through links to indepth packages, interactive maps, audio, video and blogs.

The rising defaults on subprime mortgages in the US triggered a global crisis for the money markets. Hedge funds and banks across the world have found themselves exposed, former selling off assets to meet margin calls and the latter taking tremendous writedowns.

The latest victims of the credit crisis are monoline insurers, which sold bond insurance by lending their triple-A rating to structured vehicles. Some of them already lost their triple-A rating while others face downgrades.

## 2008\02\05-08

Roudini's (2008) scenario on a "shadow financial system" collapse comes out on his blog, macroeconomic hub no.1; in realtime (via email, cross-blog links and quotations, echos on the media) he becomes a persuasion **vehicle** affecting rentiers' scenarios, financial vehicles' evaluations and herd behaviours.

**Early March, Global Wall Streets (from NY to HK) sentiments move fast from Summertime MM1 (Minsky Moment) to Winter MM2 (Minsky Meltdown)**: the latter was already feared, but now expectations of higher order (I expect you expect that I expect ...) adjust and oscillate, then quickly converge (cutting as far as possible the above chain, in order to reduce choice complexity and react faster) [12] toward stronger Minsky-Bearish feelings. As Minsky's pupil Charles Kindleberger says (WSJ quoted below), his Maestro had a Cassandra reputation; Roudini's scenarios played a similar role in Feb.-Mar. 2008: by becoming baricentric (everyone sooner or later believed he had best understood the fundamentals, and moved through fast expectations adjustment, herd-like imitation), they have led 40 days later to Bear Stearns empty safes, and Lehman Brothers ones only saved by the Fed. FT has commented this difference of treatment between the two weaker top financial banks, a moral hazard within the moral hazard, arguing that Bear Stearns bosses were such autocratic beasts (à la Zar Nicolas II, roi Louis XVI), e.g., going elsewhere to play in card tournaments, every time they should have been at their Captain's place in troubled waters: they really deserved being just kicked off. Later on, moral hazard became rage, when Morgan Chase made a gift (with OUR money) to Bear owners, revising buy price from $2 to $10.

Please note that ICT applications affect the financial meltdown in **two distinct ways:**

- **herd effects at floor level:** automated portfolio management tools are accelerating expectations, choices and sell\buy convergence, since from the start and roots of this Kondratiev-Minsky longwave, in the 1908s.

  It is a peculiar and "chance" historical contingency, a concomitance of the stylised facts focussed by the different models of Carlota Perez and François Chesnais (Schumpeter and Marx): on the one hand, the microprocessors revolution wave takes off, affects financial operations; on the other hand, excess profits and over-accumulation look for new markets where capital, credit and property rights might circulate.
- **persuasion in the back office:** bankers, finance and shadow finance rentiers read and use Keynes and Schumpeter, Minsky and Roudini: with web2 social networking tools, even ideas circulate at the speed of light: they affect the

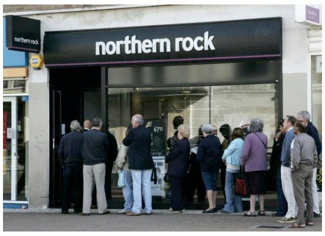
[12] A colleague from Capua University, has done important laboratory discoveries by use of Experimental Economics techniques. Financial players (that we label rentiers, following Keynes) do imitate their most successful colleagues, in order to decide where to cut short the theoretically infinite, like in a double mirror, expectations chain (pure game theoreticians often assume unrealistically the infinite chain). If last lotteries winners (the herd leaders) adopt a three-levels routine, the agents frequency distribution will be modal on 3, and so on so forth: the first successful innovator, will shift the herd toward either 2 or 4 levels. With a Prigogine dynamic-probabilistic differential equations system apparatus, in cases like this one, my friend André de Palma (Paris Cergy) used to model cyclical behaviours between two boundaries (e.g., fashion, shirts' length, and the self-organisation of cutting shorter and shorter: the mini-shirt).

cultural environment in which expectations and interpretations, languages and the wording of phenomena, the name of things (catastrophe, turmoil, disequilibrium, problem to be fixed, perturbation) are embedded.

- BUT THE TWO DISTINCT LEVELS ARE INTERACTING BETWEEN THEM: the two subsystems of Rentiers and Economists are observing, sometimes imitating each other. The persuasion mechanism uses human-to-human ICT tools, not computer-to-computer; **Paul Krugman** [13] or **Mark Wolf** (1st tier "hubs" on the web of Political Economy) must be persuaded by the evidence of new data, scenarios. When they are: if (and only if) they sing the same song, a non-automated but equally fast (due to social networks enlarging the effects of friendship, academic "invisible colleges") bandwagon is on, through 2nd-3rd order hubs like de(e)pre(ce)ssion.

Such a bandwagon might have months of incubation: there is no herd effect here, just peer-to-peer evaluation and persuasion. But you need no more wait until: paper FT, WSJ come on the streets; Krugman is on a conference tour in Europe, publishes a paper in a review, or makes a new edition of his International Economics textbook.

A rough estimate: Roudini's [14] scenario took circa one month to make a persuasion bandwagon among CFOs, economists and experts; then, in a week time it was herd-bandwagon on market floors. Bear Stearns was blown out by hedge fund clients in 2 days (on pre-holy week Wednesday-Thursday: SEC said everything was OK on Tuesday). Rite of Spring: one is killed, to buy time for everybody. Girard VS optimists: ritual cycles are repetitive. Seasonal cycles. Next? A Rite of Summer. [15]




Previously, there had been - according to the seasonal rhythm of Shamanic, early agricultural-pastoral rites - a first mass sacrifice. At **Rite of Autumn** 2007, the altar had been flooded by the blood of **a commercial bank**, lending to families and ordinary people. It took **5 months** to find a way out (nationalisation), vs **5 days** for Holy Bear Stearns repairing sacrifice and bail-out sanctification.

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13 Recent breakthroughs in the authoritative, reference and trusted Krugman's blog, among others were:
1) adopting the comparative view that, this time, two bubbles are downsizing together (the shadow finance and the housing-mortgages one, hence the **recession** will likely be deeper and longer).
2) At Bear Stearns crisis opening, the timely warning (while paranoia and deep worry transpire from the Fed's weekend revolution) that, in the previous recession-into-**depression** mutation, it was not 1929, but the '31-'32 banking crisis "domino" the point of transition, like in a mathematical catastrophe model.
We owe first of all to his leadership effect, as a liberal and a scholar, the choice to start de(e)pre(ce)ssion.

14 Prof. Roudini legitimately revindicated, on Bear Stearn's Liberation Day, his (self-fulfilling ?) prophecy:
**Step 9 of the Financial Meltdown: "one or two large and systemically important broker dealers" will "go belly up"**. Nouriel Roubini I Mar 14, 2008
In my February 5th piece on 12 Steps to a Financial Disaster I predicted - as Step 9 of the meltdown - that "one or two large and systemically important broker dealers" will "go belly up" and that other members of the "shadow financial system" - i.e. non-bank financial institutions that look like banks in terms of liquidity/rollover risk - will also go bankrupt.

15 FT's (March 20, p.30) Gillian Tett and René Girard on ritual sacrifice: the **Holy Bear**. Ms Tett is an anthropologist, besides a brave FT correspondent: here she makes a good point. It is reinforced by Girard's model: when herd, over-imitation, mimetism make a business community, a civil society collapse, someone must be found guilty. After sacrifice, he\she's sanctified. After a while, the mimetic cycle comes back.
A dramatic question: **who's the Easter Lamb?** Roudini transforms a religious rite into a Hitchcock noir:

Is Bear Stearns the 'Sacrificial Lamb' or is the Fed?

http://enzofabioarcangeli.files.wordpress.com/2008/04/all-the-subcrime-science.pdf


## 2007\08\18

Hyman P. Minsky enters today's WSJ 1st page for the 1st time.
Breaking news: **Minsky Moment (MM)** at WS. A market analyst, Chris Wood interprets the Zeitgeist and speaks of MM, as happened in previous breaking points of Schumpeter- Minsky cycles. Minsky adept Paul McCulley (PIMCO), talks even of a Minsky Meltdown! The WSJ reports:

> Indeed, the Minsky moment has become a fashionable catch phrase on Wall Street. It refers to the time when over-indebted investors are forced to sell even their solid investments to make good on their loans, sparking sharp declines in financial markets and demand for cash that can force central bankers to lend a hand.

Please note that this WSJ definition is substantially correct, since it incorporates the Fed as endogenous into the process (see Minsky 1993, and section 3): better for Wikipedia to outsource economics to the WSJ! 1st time for Minsky at WSJ front page: not for Wall Street, that knows him since long. Obscure to whom?

# In Time of Tumult, Obscure Economist Gains Currency

*Mr. Minsky Long Argued Markets Were Crisis Prone; His 'Moment' Has Arrived. By JUSTIN LAHART*

The recent market turmoil is rocking investors around the globe. But it is raising the stock of one person: a little-known economist whose views have suddenly become very popular.

Hyman Minsky, who died more than a decade ago, spent much of his career advancing the idea that financial systems are inherently susceptible to bouts of speculation that, if they last long enough, end in crises. At a time when many economists were coming to believe in the efficiency of markets, Mr. Minsky was considered somewhat of a radical for his stress on their tendency toward excess and upheaval.

Today, his views are reverberating from New York to Hong Kong as economists and traders try to understand what's happening in the markets.

## last AND least, W = forget Wiki-bullshitpedia: its standards are uncertain, low on average.

Stupidendium no better: their Authority on financial crises is not Minsky, but an obscure Malkiel.

The forked **Citizendium's** selection criteria are poorly applied (why should a *bibliotecaire* write Political Economy items? He\she might better work at central services, putting some semantic order and retrieval systems at work into a creative mess). The economic sector is poor and will get even worse, under a monomaniac program of useless "orthodox" economics, ignoring centuries of Political Economy. No critical mass in Citizendium's future.

http://en.citizendium.org/wiki/Financial_economics#_ref-36

**They stick to neoclassical brain-washing "efficient market hypothesis"** (EMH) falsified hundreds times in history (only twice for them), opposed by 90% experts and 99% operators. Citizendium socially represents Nobody: a handful of research assistants, *laquaies* and *porta-borse* in academics, trying hard to simulate (for the salary they don't deserve) that they believe such a *betise*, and never read subversive WSJ. Enjoy their slalom:

> *But two events suggest that, even if it nearly always holds true, there can be important exceptions (to EMH) ... They are the stock market crash of 1987 and the internet bubble of the 1990s. In defence of the hypothesis, Burton Malkiel argues that the 1987 crash can be explained mainly (but not entirely) in terms of rational behavour (SIC) ....*

**Minsky is never mentioned in the text:** only in note 37, aside with Kindleberger, in search of a rationale for Fed's birth, and that's all, folks! The item ends with:

> *In Britain ... moral hazard considerations delayed the rescue of the Northern Rock bank in 2007 [61]. In the United States, there were no more bank rescues until liquidity problems crippled its fifth largest investment bank, Bear Stearns in 2008. The troubles at Northern Rock and Bear Stearns both had their origins in the 2007 sub-prime mortgages crisis in the United States [62] [63]. In earlier days the consequences of a such a crisis would be confined to those immediately involved, but financial innovations such as securitisation have since spread the consequences of loan defaults over a wide range of banks and other financial intermediaries. At a time of multiple defaults, that gave rise to widespread uncertainty concerning the value of risk-bearing assets relating to the US housing market, and a generally unwillingness to offer cash in exchange for them. As a result, a variety of organisations ... found themselves unable to meet their financial obligations because they could not exchange enough of their assets for cash.*

Wiki is a way of saying, mothers shouting: **You better cleanup your wiki-room soon!!!** Wiki is classist (à la Blair, denying social classes do exist, in order to buy degrees of freedom for his social policy - forget workers and TUs); Wiki's demagogy protects the monopoly power of the clerical (Sartre): while an expert might eventually find a hidden pearl in their mess, a student can only unlearn from Wiki. A legitimate child of post '68-ism and the poor education that followed. We read the following Wikis:

http://enzofabioarcangeli.files.wordpress.com/2008/04/all-the-subcrime-science.pdf

| item | mark | comment |
|---|---|---|
| Minsky, Hyman P. | 1\10 | very superficial; dogma: von Mises was right - Minsky wrong! A rightwing neo Austrian infiltrated, among others, into wiki? |
| subprime lending | 5\10 | some info & divulgation, with: inequality, scarce updating. Major weakness: poor, messed up relations with next item |
| 2007 subprime mortgage financial crisis | 4\10 | just descriptive: no economic interpretative key; some economic mistakes; below average media divulgation, but improving in time |

We will read soon also: # Collateralized debt obligation subprime meltdown; # Recession of 2008. See more on "Wiky anti Minsky" major case of **cooperative failure**, in: http://enzofabioarcangeli.wordpress.com/2008/03/22/minsky-meltdown-and-shut-up-bullshit-pedia/

**4 lessons for Wiki, Other-pedia and Open Culture ecologies.**

The latter case study (as strategic interactions Rentiers-economists above) is full of implications on web2 Open Culture and Commons (a sort of generalisation of Free Software cooperative spirit in new areas, diffusing through so called "social networks"):

1. Besides market, organisation (firm, State, bureaucracy, management, tehnocracy), there are cooperation failures.
2. Open Culture institutions and rules are perfectible, and need some urgent revision.
3. As they say, even Hell multimedia highways are paved by good intentions.
4. As Cacciari's Krisis argued: there is no shortcut in between specialisms deepening (XX C modernity mark on science, technology and culture), and the legitimate search for viable cross-specialism transversality (XXI C hyper-modernity).
5. Wikipedia is in a success-driven collapse like shadow finance. If they do not improve, and get rid of their postmodern (home style, brand) lack of identity, they will slowly filter down: from undergraduates to the crèche.

# *5. A bibliography*

Capital over-accumulation engendering rentiers' social innovation. 15 MUST readings first:

*Michel Aglietta and Laurent Berrebi (2007), Désordres dans le capitalisme mondiale. Paris: Odile Jacob.* [16]

*David Barboza (2006, Oct. 13), China Drafts Law to Boost Unions and End Abuse.* [17]

*François Chesnais (2008, Jan.), Fin d'un cycle. Sur la portée et le cheminement de la crise financière. Carré Rouge - La Brèche, 1: 17-31.* [18]

*Li Datong (2007, June 7), Sindacati cinesi. Internazionale 696.*

*David Greenlaw, Jan Hatzius, Anil Kashyap and Hyun Song Shin (2008, Feb. 29), Leveraged Losses: Lessons from the Mortgage Market Meltdown. Paper for the 2008 US Monetary Forum.* [19]

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16 ... les transformations gigantesques du capitalisme depuis la crise asiatique. D'une part, l'économie est passée d'un régime inflationniste à un régime déflationniste. D'autre parte, la valeur actionnariale s'est substituée à la valeur ajoutée dans la régulation des économies occidentales. Ce livre montre pourquoi cette évolution n'est pas soutenable à long terme et décrit les scénarios possible d'ajustement.

17 China is planning to adopt a new law that seeks to crack down on sweatshops and protect workers' rights by giving labor unions real power for the first time. But in China today, a gradualist law introducing some TU rights is not given: NYT informs here - on first page - that US and EU lobbying is blocked such reform. Such a paper has created a scandal and reactions. Datong (2007) updates:

18 English and Italian translations forthcoming - the latter on R magazine, Centro Livio Maitan, Roma. L'hypothèse défendue dans cet article est que l'économie mondiale se dirige vers une crise d'une certaine importance qui porte la marque du moment où elle a surgi et des contradictions propres à ce dernier. C'est sous cet angle qu'est examiné le cheminement de la crise financière qui a éclaté dans le secteur des prêts hypothécaires aux Etats-Unis, début août 2007. Cette crise intervient au moment où les instruments mis en œuvre par les banques centrales ont commencé à montrer leurs limites, à force d'avoir été utilisés de façon répétée depuis vingt ans.

19 This report discusses the implications of the recent financial market turmoil for central banks. We start by characterizing the disruptions in the financial markets and compare these dislocations to previous periods of financial stress. We confirm the conventional view that the current problems in financial markets are concentrated in institutions that have exposure to mortgage securities. We use several methods to estimate the ultimate losses on these securities. Our best (very uncertain) guess is that the losses will total about $400 billion, with about half being borne by leveraged U.S. financial institutions. We then highlight the role of leverage and mark-to-market accounting in propagating this shock. This perspective implies an estimate of the eventual contraction in balance sheets of these institutions, which will include a substantial reduction in credit to businesses and households. We close by exploring the feedback from credit availability to the broader economy and provide new evidence that contractions in financial institutions balance sheets' cause a reduction in real GDP growth. NOTE: The two academic co-Authors also wrote on March 20 FT, p. 12.

http://enzofabioarcangeli.files.wordpress.com/2008/04/all-the-subcrime-science.pdf

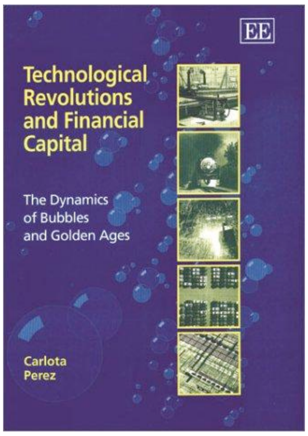
David Hirshleifer and Siew Hong Teoh (2001), Herd Behavior and Cascading in Capital Markets: A Review and Synthesis. Ohio State Un., Dec. 19. [20]

Paul Jorion (2007), Vers la crise du capitalisme américain? Paris: La Découverte - MAUSS [21]

Hyman P. Minsky (1982), The Financial Instability Hypothesis: Capitalist Processes and the Behaviour of the Economy, pp.13-4 in: Charles P. Kindleberger and Jean-Pierre Laffargue eds., Financial Crises. Cambridge: Cambridge University Press.

Hyman P. Minsky (1993), The Financial Instability Hypothesis. Philip Arestis and Malcolm Sawyer eds., Handbook of Radical Political Economy. Aldershot: Edward Elgar. (See Section 3) http://www.levy.org/pubs/wp74.pdf

Charles R. Morris (2008), The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash. London: PublicAffairs.

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A. Orléan (1999), Le pouvoir de la finance. Paris: Odile Jacob.

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Nouriel Roudini (2008 a, b), "The Rising Risk of a Systemic Financial Meltdown: The Twelve Steps to Financial Disaster" and "Can the Fed and Policy Makers Avoid a Systemic Financial Meltdown? Most Likely Not". February 5 and 8. http://www.rgemonitor.com/blog/roubini

Brigida Schulte (2008, March 22), My House. My Dream. It Was All an Illusion.' Washington Post (Glenda Ortiz story: see picture at p.1, and Section 4).

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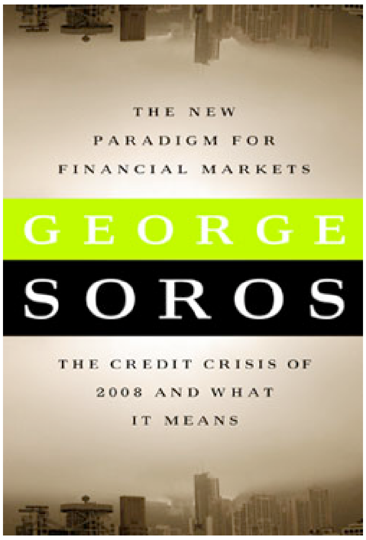
[20] We review theory and evidence relating to herd behavior, payoff and reputational interactions, social learning, and informational cascades in capital markets. We offer a simple taxonomy of effects, and evaluate how alternative theories may help explain evidence on the behavior of investors, firms, and analysts. We consider both incentives for parties to engage in herding or cascading, and the incentives for parties to protect against or take advantage of herding or cascading by others.

[21] A timely (**before** the crisis), complete and highly pedagogical introduction to the housing&finance meltdown. KEY MESSAGE: the right mix of the 2 disasters; stock exchange is just 20% of new wealth, while the 60% is incorporated into houses and properties. Suggested as READING NO.1.

[22] From the European sex market to the surge of Islamic finance, form the pirate industry in China to illegal fishing in the Baltic sea. Our world is is shaken by obscure and anarchist forces, transforming the global market into our worst nightmare. The Author, a specialist in the Economy of terrorism, maintains that, as the State retired from the economy, illegal finance and mafias took the empty place. Slavery, a necessary component of globalisation, now is larger that in colonialist times, and costs 1/10 than in the Roman Empire. An impressive series of case studies on our deflationary, unlimited Industrial Reserve Army epoch.




*George Soros (2008), The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What It Means. New York: Public Affairs and eBook.* [23]

*Mike Whitney (2008, April 14), Nothing for Families and Retirees. A Trillion Dollar Rescue for Wall Street Gamblers. http://www.counterpunch.org/hudson04142008.html*

*Mike Whitney (2008, April 22), Memo to Bernanke. Enough With the Rate Cuts, Already! http://www.counterpunch.org/whitney04222008.html*

*John C. Williams and John B. Taylor (2008, April), A Black Swan in the Money Market. Fed. RB of San Francisco WP.* [24]

## FOOD 4 THOUGHT

*Tobias Adrian and Hyun Song Shin (2007), Liquidity and Leverage. working paper, FRB New York and Princeton University, http://www.princeton.edu/~hsshin/working.htm*

*Michel Aglietta and Atoine Réberioux (2004), Les  Dérives du capitalisme financier. Paris: Albin Michel.*

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[23] The U.S. is facing both a recession and a flight from the dollar. The renminbi can be expected to catch up with the euro both to avoid protectionism in the U.S. and Europe, and to contain imported price inflation in China. This will increase prices at Wal-Mart, and put additional pressure on the already beleaguered U.S. consumer. Eventually, the U.S. government will have to use taxpayers' money to arrest house prices, whose decline will be self-reinforcing, with people walking away from homes in which they have negative equity and more and more financial institutions becoming insolvent, thus reinforcing both the recession and flight from the dollar. The Bush administration and most forecasters do not understand that markets can be self-reinforcing on the downside as well as the upside, and are waiting for the housing market to find a bottom on its own. The administration has left the conduct of policy to the Federal Reserve. This has put too much of a burden on an institution designed to deal with liquidity, not solvency problems. With the Bear Stearns rescue operation and the latest-term security lending facility, the Fed has put its own balance sheet at risk.
NOTE. Soros has a nice view of the forecasters' bias, reflecting Kahneman-Tversky's prospect theory.

[24] At the center of the financial market crisis of 2007-2008 was a highly unusual jump in spreads between the overnight inter-bank lending rate and term London inter-bank offer rates (Libor). Because many private loans are linked to Libor rates, the sharp increase in these spreads raised the cost of borrowing and interfered with monetary policy. The widening spreads became a major focus of the Federal Reserve, which took several actions—including ... a new term auction facility (TAF) ... This paper ..., using a no-arbitrage model of the term structure, tests various explanations, including increased risk and greater liquidity demands, while controlling for expectations of future interest rates.  We show that increased counterparty risk between banks contributed to the rise in spreads and find no empirical evidence that the TAF has reduced spreads.  The results have implications for monetary policy and financial economics. Note: implication no.1 is: TAF failed.

*Lawrence M. Ball (2006), Has Gobalization Changed Inflation? NBER wp 12687* [25]

*Lawrence M. Ball and N. Gregory Mankiw (2002), The NAIRU in Theory and Practice, Journal of Economic Perspectives, 16: 115-136.* [26]

*Lawrence M. Ball and Robert R. Tchaidze (2002), The Fed and the New Economy. NBER wp 8785 and: American Economic Review, 92: 108-115* [27]

*Ben Bernanke (1983), Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression. American Economic Review 73, pp. 257-276, http://www.jstor.org/view/00028282/di950033/95p00602/0*

*Ben Bernanke, Mark Gertler and Simon Gilchrist (2000), The Financial Accelerator in a Quantitative Business Cycle Framework. In: ... eds., Handbook of Macroeconomics. Amsterdam: North Holland.* [28]

*Ben Bernanke and Vincent R. Reinhart, Conducting Monetary Policy at Very Low Short-Term Interest Rates. American Economic Review 94, no. 2 (2004): 85-90.*

*Breakingviews.com (2008a), When the Dancing Stopped, The Credit Crunch of 2007 as it Happened. London.*

*Breakingviews.com (2008b), Run on the Rock: The Northern Rock Debacle. London.*

*David Cass (1972), On Capital Overaccumulation in the Aggregative, Neoclassical Model of Economic Growth: A Complete Characterization. Journal of Economic Theory, 4: 200-223.* [29]

*Kim, W. Chan and Renée Mauborgne (2007), Blue Ocean Strategy. Cambridge, Mass.: Harvard Business School Print.*

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[25] Many observers suggest that the "globalization" of the U.S. economy has changed the behavior of inflation. This essay examines ... several questions: (1) Has globalization reduced the long-run level of inflation? (2) Has it affected the structure of inflation dynamics, as captured by the Phillips curve? (3) Has it contributed substantial negative shocks to the inflation process? The answers ... are no, no, and no.

[26] This paper discusses the NAIRU -- the non-accelerating inflation rate of unemployment. The paper then discusses why the NAIRU changes and, in particular, why it fell in the United States during the 1990s. The most promising hypothesis is that the decline in the NAIRU is attributable to the acceleration in productivity growth. This fits with both theoretical expectations, and the evidence of a productivity-paradox solving.

[27] This paper seeks to understand the behavior of Greenspan's Federal Reserve in the late 1990s. Some authors suggest that the Fed followed a simple 'Taylor rule,' while others argue that it deviated from such a rule because it recognized that the 'New Economy' permitted an easing of policy. We find that a Taylor rule based on inflation and unemployment does break down in the late 1990s. However, the Fed's behavior appears stable, once one accounts for the falling NAIRU of the period (see former note). A rule based on inflation and “unemployment minus NAIRU” fits Fed's behavior through the entire period 1987-2000.

[28] Bernanke et al. (2000) develop the financial accelerator model, from previous works such as Bernanke and Gertler (1989), Kjyiotaki and Moore (1997), Carlstrom and Fuerst (1997). Gertler, Gilchrist and Natalucci (2003, www.nyu.edu/econ/user/gertlerm/paper_1.pdf) extend the model to the open economy, apply it to the 1997-98 Korean crisis, and find an amplifying effect of flexible exchange rates. REFERENCES:
B. Bernanke and M. Gertler (1989), Agency Costs, Net Worth, and Business Fluctuations, American Economic Review, 79: 14-31.
C. Carlstrom and T.S. Fuerst 1997), Agency Costs, Net Worth, and Business Fluctuations: a Computable General Equilibrium Analysis, American Economic Review, 87: 893-910.
N. Kjyiotaki and J. Moore (1997), Credit Cycles, Journal of Political Economy, 105: 211-248.

[29] “The possibility of such errant behavior has to do with the fact that there’s neither a market signal nor a market adjustment mechanism associated with a condition like (14) or (19) (as there is, for example, if a small producer tries to sell his output above or below marginal cost). This means that the only way a wealthy economy with a strong Protestant-type ethic can avoid overaccumulation is by conscious government policy.”

*François Chesnais (2006), La prééminence de la finance au sen du "capital en général", le capital fictif et le mouvement contemporain de mondialisation du capital, pp. 65-130 in: Suzanne de Brunhoff et al. eds., La finance capitaliste. Paris: PUF.* [30]

*Paul Davidson (2008), Is the current financial distress caused by the subprime mortgage crisis a Minsky moment? Jan. http://mpra.ub.uni-muenchen.de/7427/2/MPRA_paper_7427.pdf* [31]

*Howard Davies and David Green (2008), Global Financial Regulation: the essential guide. London: Polity Press.* [32]

*Mike Davis (2006), Planet of Slums. London-New York: Verso.*

*de(e)pre(ce)ssion's static pages and blog posts: click appropriate tags (Chesnais, Minsky, subprime, etc.) in http://enzofabioarcangeli.wordpress.com/*

*The Economist special reports:*

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[30] "Ce chapitre interroge ce que Marx, mais également Rudolf Hilferding, auteur maudit souvent cité mais largement méconnu, ont écrit au sujet du "capital porteur d'intérêt" et du "capital financier" qui peut aider à analyser ces aspects de l'économie contemporaine. (...) On comprend ainsi à quel point l'analyse de la finance est devenue absolument cruciale, à quel point le présent livre doit servir de jalon dans une discussion qui a trop tardé à s'engager" (pp. 66 and 123).

[31] *Abstract.* Does Minsky's theory explain recent market instability? For financial fragility, Minsky argued, specific preconditions must occur. These preconditions have not occurred, therefore recent financial market instability is not a Minsky moment. Instead the recent financial market instability is due to an insolvency problem of large underwriters caused by their attempt to "securitize" (make liquid) mortgages (where the latter are normally illiquid assets). The solution for such an insolvency problem is large direct infusions of new capital in these institutions and/or removing nonperforming loans from their books. An easy money policy per se will not do.

*Comment.* A paper out of the chorus, welcome! Worth a discussion (see also Wry 2007):

- in analytical terms: why could not a Keynes-Minsky frame be extended, so as to cover latest financial innovations? Imagine someone saying that there is no "creative destruction", since Schumpeter never mentioned microprocessors and quantum computing. See our Hyper-Ponzi 4th class and Lemma 2.3 in Section 3. Were they good, Davidson's thesis would become post-Minskyan.
- A key point is to detect how peculiar is this crisis. Developing an analytical frame from either Marx, Keynes or anybody else, implies continuing and innovating their research programs, along or beyond their lines.
- Griffith et al. 2008, p.43: "The current crisis has the distinction of being the first "post-securitization" credit crisis and so it has many unfamiliar features. For this reason, the formulation of a policy response that builds on a clearer recognition of the mechanisms of the crisis is more important than ever".
- Insolvency by over-securitization*:* the cures evaporate week after week, co-evolve with the Meltdown *(be it Minsky or Davidson)*. The FIH focuses a key point: commercial, financial banks and shadow finance units are filtering down, displacing one another, on a scale of equity/assets unsustainable ratios (Section 3).
- Minsky knows no less than Davidson, why traditional solutions don't work. The latter proposes:
    1. Infusion of new equity K? Three, **all public** alternatives: China, the Middle East and the West. Many sources discuss them comparatively. A geopolitical cash clash exploded in 2007 and is ongoing, as SWFs from the East entered the **post-subprime class war** catastrophic scene.
    1. Selling poisoned securities and vehicles to whom? The State, again! But, if we are talking socialism, the State might have better fiscal priorities than bailing out **subprime civil war criminals.** Better to defer them to The Hague, and close down their insolvent financial units.

[32] Sir Howard Davies (LSE director) in FT 080402, p.9, commenting the day before messy reform proposals outlined by the US Treasury. In national laws, there are 3 architectures of financial regulations (and no one cross-country, just Europe is thinking about that: *Plans to regulate banks across borders gain steam*, WSJ Europe 080403, p. 19): functional (separate bodies), unitary and dual (*Twin Peaks:* one authority for prudence, and one to monitor the general conduct for business standards). Adopters: 1) US; 2) London's FSA, Germany, Japan, Korea and 50 other countries; 3) Australia and the Netherlands.
He does not tell how Monday March 31 US Treasury dept. announced blueprint fits the taxonomy; it is a type 1 proliferation: 5 regulatory bodies, including a new one for business standards; one peak: unprecedented Fed oversight over, accountability for every corner of US finance, **Fed Supercop** (WSJ 080402, p. 11)

*(2007, October 18), The world economy* [33]
*(2008, March 22), Wall Street* [34]

*William A.Fleckestein with Fred Sheehan (2008), Greenspan's Bubbles: The Age of Ignorance at the Federal Reserve. New York: Mc Graw-Hill.*

*Goldman Sachs (2007), The Subprime Issue: A Global Assessment of Losses, Contagion, and Strategic Implications. November 20.*

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*Hyman P. Minsky (1987), Securitization. Handout Econ 335A, Fall 1987. Mimeo. Levy Economics Institute archives; manuscript quoted by: Dimitri D. Papadimitrou, L. Randall Wry*

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[33] Special report references:
"Housing and Monetary Policy", by John Taylor
http://www.kc.frb.org/PUBLICAT/SYMPOS/2007/PDF/2007.09.04.Taylor.pdf
"Housing, Credit and Consumer Expenditure", by John Muellbauer
http://www.kc.frb.org/publicat/sympos/2007/PDF/2007.09.17.Muellbauer.pdf
"Housing and the Monetary Transmission Mechanism", by Frederic Mishkin
http://www.kc.frb.org/publicat/sympos/2007/pdf/2007.09.20.mishkin.pdf
"The Financial Accelerator and the Credit Channel", speech by B. Bernanke, 2007\06\15
http://www.federalreserve.gov/newsevents/speech/bernanke20070615a.htm
"Inflation Dynamics", by Frederic Mishkin (speech, March 23rd 2007)
http://www.federalreserve.gov/newsevents/speech/mishkin20070323a.htm
"Why has US Inflation Become Harder to Forecast?" by James Stock and Mark Watson, Journal of Money, Credit and Banking, 2007
http://www.nber.org/papers/w12324.pdf
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http://www.nber.org/papers/w13101.pdf
"Interest and Prices", by Michael Woodford. Princeton University Press, 2003
http://www.amazon.com/exec/obidos/asin/0691010498/theeconomists-20
"Monetary and Prudential Policies at a Crossroads? New Challenges in the New Century", by Claudio Borio
http://www.bis.org/publ/work216.pdf
"Inflation Targeting: Lessons from the International Experience", by Ben Bernanke, Thomas Laubach, Frederic Mishkin and Adam Posen. Princeton University Press, 2001
http://www.amazon.com/exec/obidos/asin/0691086893/theeconomists-20
"Agency Costs, Net Worth and Business Fluctuations", by Ben Bernanke and Mark Gertler, American Economic Review, 1989
"Has Globalisation Changed Inflation?" by Laurence Ball, NBER Working Paper no 12687
http://www.nber.org/papers/w12687

[34] What went wrong in the financial system - and the long, hard task of fixing it: leader, p. 15. Our 10-page special briefing on the financial crisis, including stories on Bear Stearn's demise, monetary policy. commodities, the dollar and lessons from other crises, begins on p. 73.

[35] A nice intro to JMK. It has magic: in a double mirror, it is rooted in history as the General Theory was. Paul K. makes a point to JMK: did you overstate liquidity trap's empirical relevance? JMK might reply: 20th Century's last quarter was a high interest rates parenthesis. With Nippon deflation diseases and shadow melting downs, couldn't the liquidity trap strike back? We'll ask Paul K., since JMK doesn't reply to mails.

*(1998), The Economic Contributions of Hyman Minsky: Varieties of Capitalism and Institutional Reform.* [36] *http://ideas.repec.org/p/wpa/wuwpma/9802018.html?=*

*A. Orphanides and J. C. Williams, Robust monetary policy with imperfect knowledge. Journal of Monetary Economics 54, no. 5 (2007): 1406-1435.*

*Carmen M. Reinhart, Kenneth S. Rogoff (January 2008), Is the 2007 US Sub-prime Financial Crisis So Different? An International Historical Comparison. NBER WP 13761. http://www.nber.org/papers/w13761 - forthcoming in American Economic Review, May 2008.*

*Carmen M. Reinhart, Kenneth S. Rogoff (Feb. 2008), This time is different: a panoramic view of eight centuries of financial crises, NBER Working Paper 13882, http://www.nber.org/papers/w13882 or http://ideas.repec.org/p/nbr/nberwo/13882.html* [37]

*Carmen M. Reinhart, Kenneth S. Rogoff (April 2008), Domestic Debt: The Forgotten History, NBER WP*

*C. D. Romer and D. H. Romer, Choosing the Federal Reserve Chair: Lessons from History. The Journal of Economic Perspectives 18, no. 1 (2004): 129-162.*

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[36] Hyman Minsky's work represents one of the most important links between Post Keynesians and Institutionalists. We begin (...) with a brief summary of some of his earlier work, including his well-known "financial instability hypothesis" and his policy proposals that were designed to reform the financial system, but pay more attention to his writings (...) that are less well known. These have been for the most part developed in the later years, (...) during his association with the Levy Institute. Minsky always insisted that theory must be institution-specific. Because there are a variety of possible types of economies, and even "fifty seven" varieties of capitalism, theory must be appropriate to the specific economy under analysis. His analysis concerned an evolving, developed, big-government capitalist economy with complex and long-lived financial arrangements. His policy recommendations were designed to promote a successful, democratic form of capitalism given these financial arrangements. These policies would have to "constrain" instability through creation of institutional "ceilings and floors" while at the same time they would have to address the behavioral changes induced by reduction of instability. The policies would also have to promote rising living standards, expansion of democratic principles, and enhancement of security for the average household. Thus, his proposals go far beyond "invisible handwaves" of free market ideologues, but also well beyond macroeconomic tinkering normally associated with "Keynesians" to take into consideration the required institutional change that would promote the sort of society he desired.

[37] A "panoramic" analysis of the history of financial crises dating from England's fourteenth-century default to the current United States sub-prime financial crisis. Our study is based on a new dataset that spans all regions. It incorporates a number of important credit episodes seldom covered in the literature, including for example, defaults and restructurings in India and China. As the first paper employing this data, our aim is to illustrate some of the broad insights that can be gleaned from such a sweeping historical database. We find that serial default is a nearly universal phenomenon as countries struggle to transform themselves from emerging markets to advanced economies. Major default episodes are typically spaced some years (or decades) apart, creating an illusion that "this time is different" among policymakers and investors. A recent example of the "this time is different" syndrome is the false belief that domestic debt is a novel feature of the modern financial landscape. We also confirm that crises frequently emanate from the financial centers with transmission through interest rate shocks and commodity price collapses. Thus, the recent US sub-prime financial crisis is hardly unique. Our data also documents other crises that often accompany default: including inflation, exchange rate crashes, banking crises, and currency debasements.
M. Wolf (FT, 080416): The chart shows that the incidence of banking crises (measured by the proportion of countries affected) has been as high since 1980 as in any period since 1800; that **the incidence of crises is correlated with liberalisation of capital flows.**

*Nouriel Roudini (2008 c), Should Securities Firms be Regulated and Supervised like Banks? March 23. rge-monitor.com* [38]

*Nouriel Roudini (2008 d), Ten Fundamental Issues in Reforming Financial Regulation and Supervision in a World of Financial Innovation and Globalization. March 31, rge-monitor.com*

*B. Sack and V. Wieland, Interest-rate smoothing and optimal monetary policy: a review of recent empirical evidence. Journal of Economics and Business 52, no. 1- 2 (2000): 205-228.*

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# Financial history books recommended by John Zhu, breakingviews.com

Devil Take The Hindmost: A History of Financial Speculation (1999) Edward Chancellor. [40] A greatest hits of bubbles and manias and stock-market speculation from the tulip mania in seventeenth century to the South Sea and Internet bubbles.

The Great Crash, 1929 (1955) John Kenneth Galbraith. An analysis of the months leading up to the October 1929 stock market crash and the aftermath. Galbraith's darkly humorous tone, e.g. "One can relish the varied idiocy of human action during the panic to the full, for, while it is a time of great tragedy, nothing is being lost but money", was a hit with many readers.

Manias, Panics and Crashes: A History of Financial Crises (1978) Charles P Kindleberger. Tackles virtually every major crash and financial panic on record, from the currency devaluation in the Holy Roman Empire in 1618, through the California gold rush of the 1840s and 1850s, all the way up to the crash of 1987 and the 1997 Asian financial crisis.

Barbarians at the Gate: The Fall of RJR Nabisco (1990) Bryan Burrough and John Helyar. Spawned the genre of the blow-by-blow deal story, and offered a great glimpse into M&A tactics. Also painted memorable pictures of egomaniacal investment bankers and lawyers who grow fat on the consulting fees generated by takeover deals.

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[38] The response of the Fed to this bank-like runs on non-bank institutions has been the most radical change in monetary policy and lender of last resort support by the Fed since the Great Depression ... bank runs on illiquid but solvent banks can be addressed via bank holidays; but the risk ... has led – historically – to two alternative ways ...: deposit insurance and lender of last resort support by the central banks. Since these forms of support potentially lead to moral hazard ... these banking/depository institutions - ... - are also subject to strict regulation and supervision of their activities ... .
Now that some non-bank financial institutions that have been deemed as too-systemically-important to be allowed to fail – i.e. Bear Stearns and non-bank primary dealers – have been effectively put under the lender of last resort support umbrella of the Fed the question arises: shouldn't these non bank institutions be regulated and supervised in the same way as banks are? ... Note that currently US securities firms are supervised/regulated by the SEC and have lower capital standards than banks.

[39] This paper uses Hyman P. Minsky's approach to analyze the current international financial crisis that was initiated by problems in the U.S. real estate market. In a 1987 manuscript, Minsky had already recognized the importance of the trend toward securitization of home mortgages. This paper identifies the causes and consequences of the financial innovations that created the real estate boom and bust. It examines the role played by each of the key players—including brokers, appraisers, borrowers, securitizers, insurers, and regulators—in creating the crisis. Finally, it proposes short-run solutions and longer-run policies.

[40] An entertaining but scholarly look at the history of speculative manias - mass delusion bimodal cycles. From the tulip Colleges of the 17th century to the Internet investment clubs of the late 20th century, speculation has established itself as a demonic, dark side of the economy. Although profoundly secular, speculation is not simply about greed. The essence of speculation remains a Utopian yearning for freedom and equality, which counterbalances the rationalistic materialism of uncompassionate, unequal capitalisms.

http://enzofabioarcangeli.files.wordpress.com/2008/04/all-the-subcrime-science.pdf

Liar's Poker (1989)  Michael Lewis. Charts the author's journey through trader training in parallel with the rise and fall of Salomon Brothers. While extremely critical of Wall Street culture, the book might have attracted as many into the industry with vivid anecdotes of wanton greed and its rewards, as it turned off those appalled at braggadocio.

When Genius Failed: The Rise and Fall of Long Term Capital Management (2000)  Roger Lowenstein.  This blow-by-blow account of how the mega hedge fund's near collapse almost caused panic throughout global markets in 1998.

The Sun Also Sets: Limits to Japan's Economic Power (1989)  Bill Emmott.  A contrarian book arriving immediately before Japan's bubble burst and when most were predicting Japan's inevitable dominance.

Extraordinary Popular Delusions and the Madness of Crowds (1841)  Charles Mackay.   Explores the impact of crowd behaviour and trading trickery on financial markets. Mackay writes in the preface that: "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one."