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MARIO SECCARECCIA

Editor's Introduction

The Financial Crisis, Structural Transformations, and the Need for a New Regulatory Structure

To mainstream economists and policymakers, the financial crisis and the ensuing Great Recession that profoundly affected the fabric of the world economy are an aberration. They are widely viewed as a random shock to what is otherwise a self-adjusting private economy. Except for some minor tinkering to prevent the excessive, irresponsible behavior of a few individual agents in the financial markets that led to the crisis, the system is fundamentally sound and will eventually return to its long-term growth path. Much of the current reaction of legislatures in the United States and Europe reflects this view that all that is really needed is a dose of somewhat more stringent regulatory changes to curtail individuals within the banking and financial sectors from engaging in excessive leveraging and reckless proprietary trading. With these new regulations in place, the world financial system would find stability as the economy eventually expands and returns to high growth.

Heterodox economists question this view and point to the systemic or structural nature of the crisis. To use an analogy: The crisis is not the result of a few bad apples that more up-to-date legislation could preemptively net out before they contaminate the whole basket. Rather, it is the actual faulty and deteriorating basket in which they are held that will invariably continue to taint the entire economy regardless of how the banking and overall financial system is screened. The crisis is the manifestation of a long-term evolution of capitalism, in particular how it redesigned itself over the past forty years as it has become progressively financialized. For some, this structural change had to do with the way money manager capitalism eventually developed concomitantly with the rise of an ever more powerful shadow banking system. For others, it is connected with the way the international payments system evolved in the post-World War II period with the U.S. dollar as the premier reserve currency. What is needed, therefore, are structural changes that go directly

to the heart of an increasingly complex financial system, rather than mere cosmetic changes that tinker around the edges.

The richness of this heterodox analysis is well represented in the contributions to this issue on the financial crisis and the need for a new regulatory structure. The five contributions are revised versions of papers that were first presented at an international conference held at the University of Macerata in Italy on October 1–2, 2010. I thank all the contributors for their excellent articles and offer special thanks to Domenica Tropeano not only for having organized the conference but also for his excellent work in bringing together these five articles.

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L. RANDALL WRAY

Minsky's Money Manager Capitalism and the Global Financial Crisis

Abstract: *The world's worst economic crisis since the 1930s is now well into its fourth year. Minsky's work has enjoyed unprecedented interest, with many calling this a "Minsky moment" or "Minsky crisis" and locating the beginnings of the crisis in the 2000s. I argue that we should not view this as a "moment" that can be traced to recent developments. Rather, we have seen a slow realignment of the global financial system toward what Minsky called "money manager capitalism"—something like a return to prewar "finance capitalism" analyzed by Rudolf Hilferding, Thorstein Veblen, and John Maynard Keynes—and later by John Kenneth Galbraith. Getting out of this crisis will require radical policy changes no less significant than those adopted in the New Deal.*

Keywords: *Can it happen again?, debt deflation, finance capitalism, financial crisis, Hilferding, Hyman Minsky, John Kenneth Galbraith, Keynes, Minsky crisis, Minsky moment, money manager capitalism, Veblen*

The world's worst economic crisis since the 1930s is now well into its fourth year. All sorts of explanations have been proffered for the causes of the crisis: lax regulation and oversight, rising inequality that encouraged households to borrow to support spending, greed and irrational exuberance, and excessive global liquidity—spurred by an easy money policy in the United States and by U.S. current account deficits that flooded the world with too many dollars. Unfortunately, these do not recognize

L. Randall Wray is a professor of economics at the University of Missouri–Kansas City. He is also a senior scholar at the Levy Economics Institute, Bard College, Annandale-on-Hudson, New York. This paper was originally presented at the DIFE–DisSE–Laboratorio Vicarelli international conference "Can It Happen Again? Sustainable Policies to Mitigate and Prevent Financial Crises," University of Macerata, Italy, October 1–2, 2010.