**History of the World**

States- wanted the loot of the war but needed money to pay for their soldiers. Without wars they couldn’t acquire the riches that they needed in part to pay for the previous wars. Bankers needed governments to pay them and, and governments needed bankers to fund them. The new thing about capitalism is the relations among the pursuit, its financing, and governments.

Finance as Ecology – In the modern world, money is an ecological relation.it shapes the existence for all life. Capital circulates for two reasons – a) Modern world market, that took shape in the era of Columbus; b) Modern Imperialism.

Financialization – Capitalists turn to loaning money and making speculative bets on the future. It is essentially a gamble on some future, more profitable industrial revolution. Two movements make Financialization attractive – a) Tendency of leading powers to go to war/ build up war capacity; b) Capital starts flowing towards the frontiers.

Climate change led to recession in the mid-fifteenth century.

Monetary Origins of Military – This section is interesting as it concludes with the war between Spain (with its gold and silver) versus the Dutch (with their manufacturing capacities). The victory of the Dutch was the victory of the Capital. After reading this, I was reminded of modern military conflicts. Indeed, the country with the stronger access to capital has the military advantage.

Colonialism – It was the next stage in Capitalism - Cheap lives turned into cheap workers dependent on cheap care and cheap food in home communities. Dr. Patel ends with the example of Greece. I thought that was an excellent way of connecting the past and the present.

**Why Minsky Matters**

Banking System - In the real world, all the money you have is someone’s liability. Minsky observes that the problem is not creation of money, but getting it accepted. This is an interesting read as it explains the entire banking system. Another important thing that Minsky states is that the money created loses its value when the loan is repaid.

Six Main Points of Minsky: a) A capitalist economy is a financial system; b) Neoclassical economics is not useful because it denies that financial system matters; c)The financial structure has become much more fragile.; 4) Fragility makesit possible that a stagnation is possible; 5) Stagnant capitalist economy doies not proimote capital development; 6) Fragility can be avoided by the reform of financial institution and use of fiscal powers of government.

Minsky also distinguishes between types of banks – commercial, universal, Investment and public holding companies. I reflected upon the importance of Investment banks in the modern times and how so much of modern economic activity depends on them.

The entire chapter explains the evolution of banking system and how it functions in the modern world.

**Manias**

**Chapter 1 –** Financial Crisis and Bank Failures – These failures resulted from an implosion of the asset price bubbles or sharp depreciation of national currencies in foreign exchange market. This chapter explains the cycle of Manias. Manias – Macro manias are associated with economic euphoria. This is related to asset pricing.

While reading this section, I am reminded of the slowdown in the Chinese economy. However, just before the slowdown, the Chinese invested huge amount in grand projects that yielded little or no returns.

**Chapter 2 –** Economic Model of a Financial Crisis – This model covers the boom, the episodic natures of manias and the subsequent crisis. Refers to Minsky’s model. Events leading to a crisis start with an exogenous shock. Minsky’s hypothesis is that when the economy slows, some of the firms that had been involved in hedge finance are shunted to the group involved in speculative finance and that some of the firms that had been involved in the speculative finance group now find they are in the Ponzi finance group.

**Chapter 12 –** International Lender of Last resort - A concept for a facility prepared to act when no other lender is capable or willing to lend in sufficient volume to provide or guarantee liquidity in order to avert a sovereign debt crisis or a systemic crisis. IMF was supposed to play that role. The problem is that the currencies are different and the rule of law is fragile in an international system.

Explains the working of the IMF – It was to provide a formal arrangement of extension of credit among national governments.

The chapter gives historical instances where International organization bailed out other states.

British Keynes’ Plan vs American White Plan – According to British Plan, the International institution will have its own unit of currency, whereas according to the American Plan, each member country will transfer gold and non-interest bearing deposit to endow capital. The US prevailed.

While reading this section, I was thinking about the more recent 2008 financial crisis. It was mitigated because the US government bailed out the banks.

Conditionality – The populist view is that IMF is restrictive about the choice of monetary policies and fiscal policies by the emerging market countries.