Production asymmetries, capital requirements and banking policy.

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This study explores the foundations of a medium-term theory of crises. Its theoretical building blocks are:

-firms’ decisions concerning the production of fixed capital, circulating capital, and consumption goods;

-banks’ decisions concerning the supply of short-term credit;

-investors’ portfolio choices concerning the allocation of wealth, which may include a speculative component, and their impact on the purchase price of capital goods.

Combining these elements may lead to a prototype model of medium-term crises, which, as Robertson argued, should be seen “against the background of economic growth”.

Under physiological circumstances, all the links in the chain leading from production to the purchase of capital goods work smoothly. In less tranquil circumstances, however, these links may not work “properly” or be adequately synchronised. This approach characteristically combines real, monetary, and financial variables. It also calls attention to differences between the objectives motivating agents and groups in hypothetical co-operative economies and those characterising a capitalist economy, and how these differences impact on the genesis of crises.

Many of its basic elements can be found in the works of D.H. Robertson and J.M. Keynes (particularly in Robertson’s *A Study of Industrial Fluctuation* (1915) and *Banking Policy and the Price level* (1926); and in Keynes’s *General Theory*, especially chapter 17); as well as in subsequent theoretical developments, such as those proposed by H. Minsky.