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ONE HUGE "MINSKY MOMENT": LESSONS FROM THE FINANCIAL CRISIS

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ONE HUGE “MINSKY MOMENT”: LESSONS FROM THE FINANCIAL CRISIS

LESTER HENRY

ABSTRACT

This paper reviews the causes and origins of the current global financial and economic crisis. It highlights several factors that have contributed to the crisis, including policy-makers' adherence to neoliberal economic policies, specifically those that deal with unregulated financial markets, the sub-prime mortgage market and the credit rating agencies. Most importantly, it emphasizes that the crisis could be viewed as a case of a Minsky meltdown. This paper also analyses the initial attempts to solve the crisis and outlines the reasons for their apparent failure. Finally, drawing on Farrell (1978), it attempts to outline the consequences of the current global financial and economic crisis for the Trinidad and Tobago economy.

The ongoing international financial crisis continues to pose serious challenges to both developed and developing countries. In fact, this situation has moved from one that was strictly of a financial nature to a serious economic crisis. The depth and scope of this crisis has caught many by surprise. The Americans seem to be at a loss as one stimulus package after another has yielded very little positive results. Japan and Western Europe are not faring much better. The emerging economies of India and China have also been experiencing a sharp downturn in their economic fortunes. That is, emerging economies have not escaped the contagion and knock on effects of the crisis (Subbarao 2008).

The Caribbean has also been feeling the spillover effects through lower export prices and falls in tourist arrivals (e.g., Caribbean Development Bank 2008). It is clear, therefore, that a

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