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Is the current financial distress caused by the subprime mortgage crisis a Minsky moment? or is it the result of attempting to securitize illiquid noncommercial mortgage loans?

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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) noncommercial 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 or removing nonperforming loans from their books. An easy money policy per se will not do.

Keywords:

financial fragility

illiquidity

insolvency

mortgage-backed assets

securitization

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