Journal of Economic Issues > Volume 31, 1997 - Issue 2

180 42

Views CrossRef citations to date Altmetric

Original Articles

Margins of Safety and Weight of the Argument in Generating Financial Fragility

J.A. Kregel

Pages 543-548 | Published online: 05 Jan 2016

66 Cite this article

https://doi.org/10.1080/00213624.1997.11505945

Sample our **Business & Industry Journals** >> Sign in here to start your access to the latest two volumes for 14 days

References

66 Citations

Metrics

➡ Reprints & Permissions

Read this article

About Cookies On This Site

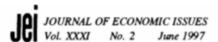


We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Onl

Settings



Margins of Safety and Weight of the Argument in Generating Financial Fragility

J.A. Kregel

No one who has heard Hy Minsky describe the negotiations between a bank loan officer and a potential business borrower will ever forget it. The dissection of the pro forma statement of prospective cash receipts and commitments for the proposed investment project is the focal point of the process that determines the acceptable margins of safety for both the borrower and the lender. And the idea of financial fragility is built around changes in these margins of safety. It is the slow and imperceptible erosion of these margins of safety that produces financial fragility. When margins have been reduced to the minimum, even the smallest departure of realizations from expectations creates conditions in which firms have to deviate from their planned actions in order to meet fixed cash flow commitments. This can mean delayed payment or distress borrowing. If this is unsuccessful, investment plans may be delayed, and distress sales of inventory or of productive assets may be necessary. The result is a Fisherian debt-deflation process, which produces falling prices, rising real debt burdens, and the reversal of the normal laws of supply and demand. Lower prices increase supply and reduce demand.

Minsky's main contribution to the description of these events was to point out that they were inevitable. He formulated them as an endogenous process in which sustained economic stability produced financial fragility. It has become common to describe this process of endogenous creation of financial fragility as one of mutual contagion in which the entrepreneur's optimism, reinforced by his past record of success, eventually overcomes the natural scepticism embodied in the banker's query "How are you going to repay the loan?" Thus, as tranquil conditions turn to

543



Loading institutional login options...



Log in to Taylor & Francis Online

The author is Professor of Political Economy, University of Bologna, Italy. This paper was presented at the annual meeting of the Association for Evolutionary Economics, New Orleans, Louisiana, January 4-6, 1997.

Log in Restore content access > Restore content access for purchases made as guest Purchase options * Save for later PDF download + Online access • 48 hours access to article PDF & online version · Article PDF can be downloaded · Article PDF can be printed USD 53.00 ₩ Add to cart Issue Purchase • 30 days online access to complete issue · Article PDFs can be downloaded · Article PDFs can be printed USD 113.00 ☐ Add to cart * Local tax will be added as applicable Related Research 1 People also read Recommended articles Cited by 42 The International Implications of the United States Telecommunications Act >



Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email















Copyright © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions

Taylor & Francis Group
an informa business

Accessibility

Registered in England & Wales No. 3099067 5 Howick Place | London | SW1P 1WG

