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Minsky's Theory of Financial Crises in a Global Context

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Hyman Minsky's theory of financial crises was developed in the context of a domestic economy. Recent financial instability in the international economy, however, suggests that it would be useful to examine his theory in a more global environment. After briefly discussing the main themes of Minsky's domestic theory in the first section, this paper then attempts to identify how the theory would need to be modified to take account of the international setting. In the last section, institutional changes in the global economy are investigated and their relevance to financial crises is evaluated in light of the theory discussed in the second section.

Main Themes of Minsky's Domestic Theory of Financial Crises

For our purposes here, we will consider Minsky's theory under the following headings: the systemic development of financial fragility; the movement to the brink of financial crisis; the disruption of stability by a "not unusual" (surprise) event; and debt-deflation, including the ability to prevent the debt-deflation process.

The Systemic Development of Financial Fragility

Minsky's theory of financial crises is set within the context of an expanding economy. As the expansion develops, optimism increases, and conventions about the proper level of debt and risk begin to change. Prices of financial assets rise and the general level of speculation increases. Speculation is taken to be the attempt to bet on the future direction and psychology of the market (Keynes 1936, 158), and also the more general

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