



Journal of Post Keynesian Economics >

Volume 16, 1994 - [Issue 3](#)

32 Views | 83 CrossRef citations to date | 0 Altmetric

Original Articles

Debt, Aggregate Demand, and The Business Cycle: an Analysis in the Spirit of Kaldor and Minsky

Thomas I. Palley

Pages 371-390 | Published online: 04 Nov 2015

Cite this article <https://doi.org/10.1080/01603477.1994.11489991>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

References

Citations

Metrics

Reprints & Permissions

Read this article

Share

THOMAS I. PALLEY

Debt, aggregate demand, and the business cycle: an analysis in the spirit of Kaldor and Minsky

Over the last decade interest in the economic consequences of debt has increased significantly. There are numerous reasons for this increase. First, there is the increase in the levels of debt, both private and government, that characterized the decade of the 1980s. Second, there is the widespread belief that the current recession is a “balance sheet” recession, with consumption and investment depressed because households and firms are weighed down by debt service obligations. Third, there is the discovery by Friedman (1983, 1986) of a longstanding stable time-series relation between income and credit, and this in turn has served to redirect attention away from the traditional focus on the money–income relationship.

This growth of interest in the effects of debt ties in with the work of Minsky (1964, 1977, 1982), who has persistently emphasized the role of financial factors in the business cycle. Within the Minskyian framework, the business cycle is characterized by the gradual emergence of “financial fragility,” and this fragility ultimately causes the demise of the upswing. Minsky’s descriptive model is as follows: The business cycle upswing is characterized as a period of “tranquillity” during which bankers, industrialists, and households¹ become increasingly more “optimistic.” In the real sector this optimism translates into increased real investment, while in the financial sector it shows up in the form of an increased willingness to borrow, an easing of lending standards, and an increase in the degree of leverage of debtors. Effectively, there is a

The author is Assistant Professor of Economics, New School for Social Research, New York.

¹ The role of households and consumer debt is not emphasized by Minsky. In part this is because the massive expansion of consumer borrowing is a relatively recent development, and Minsky’s work has been inspired by earlier episodes in American economic history, particularly the Great Depression. However, consumer borrowing can be incorporated into the analysis without difficulty.

Log in via your institution

➤ Access through your institution

> [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


EUR 48.00

 Add to
cart

Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

EUR 190.00

 Add to
cart

* Local tax will be added as applicable

Related Research

People also read

Recommended articles

Cited by
83

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



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG



Taylor & Francis
by informa