



The markets are experiencing a 'Minsky Moment'

By Fadhel Kaboub
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From Dr Fadhel Kaboub.

Sir, While I enjoyed John Kay's article "Economists of Scale" (September 8) about Keynes, Schumpeter, Galbraith and Friedman, it is false to argue that there are "no Schumpeterian economists" or that Schumpeter's followers can only be right-leaning of the Friedman and Samuelson type. The late financial Keynesian economist Hyman Minsky (1919-1996), a student of Schumpeter (in the same class as Friedman), developed one of the most brilliant theories on Wall Street capitalism, the "financial fragility hypothesis", with the inspiration from Schumpeter's argument about the perpetual creative destruction nature at the heart of capitalism (innovation, entrepreneurship and credit creation) and Keynes' insights about waves of pessimistic and optimistic expectations swinging the mass psychology of the market under uncertainty, leading to changes in lender's and borrower's risk assessment, thus causing economic fluctuations and business cycles.

Minsky's contribution is arguably more useful on Wall Street than Schumpeter's, yet we don't hear about a Minskyian (or post-Keynesian) school of thought on Wall Street. Perhaps this has something to do with his assertion that "stability breeds instability" - not a popular mantra in bull markets. It is especially surprising that Prof Kay failed to mention Minsky when we are in the midst of a credit crunch caused by poorly regulated financial innovations in (subprime) mortgage-backed securities, a typical "Minsky Moment".

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