All three major schools of thought on financial crisis reviewed in Chapters 2 and 3 would probably concur, despite their disagreements and normative differences, on the following. Finance itself, and its relation to the economic system, has become incredibly complex and difficult to read. Market-friendly approaches, such as EMT and other versions of neoclassical synthesis agree that instability may be a by-product of such complexity. They do not agree, however, that the recent spate of financial crises is a symptom of a structural fragility. Rather, they contend that the financial revolution has facilitated the progress of capitalism towards a new stage of development. In contrast, ‘structuralist’ accounts maintain that the ‘financialisation’ of capitalism is proceeding through a recurrence of crises and under the clout of endemic financial fragility.

Analysing these disconcerting tendencies through historical lens, one unavoidably looks back at previous ‘new economy’ eras and financial implosions that paralleled them; in particular, at the Wall Street crash of October 1929 and the ensuing Great Depression of the 1930s. Many lives and fortunes were lost in the stock market crash of 1929; its aftermath was long and painful, engulfing the US and the international economy in a mire of deflation and depression. With memories of the ‘Great Crash’ still lingering in the economic literature and popular culture, little wonder that fear of a new great depression exercises the minds of many economists ever since. Among those who contemplated a recurrence of financial crisis, the work of Hyman Minsky in particular stands out. It is to his scholarship that we turn now.
The financial instability hypothesis

Hyman Minsky is perhaps the most prolific and original theorist of financial instability. Yet, within the discipline of international political economy at least, his name remains inexplicably overshadowed by the likes of Keynes and Kindleberger. The wave of the recent crises has sparked, however, renewed interest in Minsky’s scholarly legacy: his followers in the so-called post-Keynesian economics and political economy provide some of the most insightful and original ideas about finance, financial regulation and crisis management (Arestis and Sawyer 2001; Arestis et al. 2001; Toporowski 1999, 2001; Portes 1998; Dymski 2003; Davidson 1992, 2001, 2004; Gray and Gray 1994; Bellofiore and Ferris 2001; Bartholomew and Phillips 2000).

Susan Strange once described Minsky as a ‘loner’, a highly original economist whose analytical framework and normative standpoint did not only stand in stark contrast to the ideas of his contemporaries, but were also developed in isolation from the big ‘intellectual armies’ of economic theory (1998: 77–8, 96). Minsky himself identified his work as a variant of Keynesian economics, or more accurately, as financial Keynesianism. Although he is widely considered to be a theorist rather than an economic historian, his vision of financial instability is founded, in effect, on an original interpretation of economic and financial evolution of American capitalism. Minsky’s major conceptual foundation is predicated on the assumption that neither the economic activity nor the actions of governments are able to ‘fix’ finance and credit. Instead, credit and finance tend to expand, often uncontrollably, being driven by a perpetual quest for financial innovation. Hence, he concluded, in an advanced financialised economy, instability is ever-present: ‘as long as an economy is capitalist, it will be financially unstable’ (Minsky 1982b: 36).

In its emphasis on the instability of the credit system, Minsky’s vision of finance is a descendant of an academic current set out by a host of economists including J.S. Mill, Irving Fisher and John Maynard Keynes. Like Fisher, Minsky attaches great importance to the role of debt structures in causing financial difficulties, and especially debt contracted to leverage the acquisition of speculative assets for subsequent resale. His thinking also drew on Keynes’