Each one of the crises analysed in the previous chapters was unique in many respects. It is important, however, to try and understand why each of these crises spread so fast throughout the entire financial system. Orthodox theories tend to see each crisis in isolation, as specific to a country and attributed mostly to human error and/or market shocks. Alternative explanations, originating in the ‘disjuncture’ paradigm of financial capitalism view the crises as symptoms of the fissure between the overblown financial market and the stagnating ‘real’ economy. A Minskian framework provides an insight into the inner mechanisms of financial fragility in crisis-hit countries, while allowing for important institutional and structural differences between them.

It would be naïve of me to claim that financial crisis today is necessarily a Minsky-type one. Minsky himself recognised that financial fragility has many causes, structural and idiosyncratic. In many cases, the economic and political circumstances in the run-up to the crisis are so complex and uncertain that a comprehensive analysis of all the precipitating factors is only possible retrospectively, after the collapse, if at all. Yet at the same time, the central role of financial speculation, reckless borrowing and especially, arising progressive illiquidity of credit pyramids in the recent wave of crises, have exposed the limits of conventional economics in understanding financial fragility and crisis management.

Financial crisis has become a veritable curse of the 1990s. Volatility and shocks no longer discriminate between the traditionally ‘problematic’ emerging market economies, and the highly
sophisticated financial systems of advanced industrialised countries. Financial volatility has affected most participants of the global economy, from households to corporations to national and regional economies. Emerging markets, nonetheless, whose relatively small economies could easily be overwhelmed by macroeconomic shifts on such scale, took the brunt of the impact (Pettis 2001: 31). When a country, or even a whole region, becomes a favourite of international investors, it often experiences a temporary boom. Mexico in the late 1970s and early 1990s, East Asia throughout the 1980s and first half of the 1990s, Russia in 1995–1998, all lived through feverish consumption booms driven by foreign investment, only to end up in crashes when in a couple of years or so, the very same foreign investors concluded that the economic ‘fundamentals’ failed to justify their initial euphoria (Krugman 2000: 26; Bello et al. 2000).

The results of these investment booms were unfortunately all too familiar: irrespective of the economic fundamentals, whether they were sound or not, progressively illiquid financial pyramids triggered a financial crisis. This was precisely the case of East Asia. Naturally, when the fundamentals are weak, illiquidity makes a bad situation worse, as was the case in Russia. Once it becomes a problem, international illiquidity further undermines the confidence of international capital markets in a stricken country. Capital outflow increases, reducing liquidity further, thereby depleting reserves and precipitating default. Thus just like investment booms in advanced economies, the foreign decision to invest in an emerging market, while often justified by perceived changes in the economic policy, tends to follow its own rhythm and pattern, somewhat independent from the ‘fundamentals’ of the country (Pettis 2001: 47; Bird and Rajan 2002). Therefore, one of the lessons of the late 1990s suggests that ‘countries and even regions are increasingly subject to market-related risks and shocks that can disrupt their behaviour, just as companies are, and these risks are transmitted in a similar way: through their capital structures’ (Pettis 2001: ix).

Changes in investor sentiment and abrupt capital outflows are often motivated by concerns over mounting public debt or financial imbalances. The crises of the late 1990s have been aggravated by cross-border financial contagion, where market liquidity suddenly