GFC

Underlying causes	
Fundamental uncertainty	- Simply do not know so financial actors have to base decisions on conventions which may be stable for a time but then can change rapidly, like rating agencies - Maynard's metaphor: the beauty contest as a device for social magnification, people go in same direction - Over long periods of growth, capitalist economies tend to move from a financial structure dominated by stable (hedge) finance to one ruled by speculative finance (unstable). Irregular cycles result from this dynamic (Minsky)
Prices of assets (e.g. houses) vs. process of goods and services – does not move together, Minsky	- Asset prices movements can be highly irregular - Equity price bubble breaks in late 1990s, housing bubble in mid-2000s - The bubbles were driven by economic actors increasing debt to buy assets with rising prices – they built up leverage to harvest capital gains → asset price bubbles
Output (investment) determined by effective demand not aggregate supply	- Subprime structure: linking lenders risk to house prices is the main cause. Securitisaton spread the problem and added complexity, but is not to blame - Leverage: magnifies gains but also magnifies losses → AD collapsed with household net borrowing
Important role of distribution in determining effective demand	- Neoliberalism by Reagan → commitment to full employment abandoned, instead, commitment to fight inflation - Unemployment increases → wages fall - Wage growth lower than productivity growth → AD growing much slower than output - Increasing income inequality coupled with asset price inflation → growing debt levels esp. household debt → Increased inequality reduces demand

Minsky Moment

- a sudden major collapse of asset values
- when over indebted investors are forced to sell even their solid investments to make good on their loans
- Such **moments** occur because long periods of prosperity and increasing value of investments lead to increasing speculation using borrowed money.