

Funding the Future

Article URL

Published: January 12, 2026, 5:53 pm

This is one of a series of posts that will ask what the most pertinent question raised by a prominent influencer of political economy might have been, and what the relevance of that question might be today. There is a list of all posts in the series at the end of each entry. The [origin of this series is noted here](#).

After the first two posts in this series, the topics have been chosen by me, and this is one of those. This series has been produced using what I describe as directed AI searches to establish positions with which I agree, followed by final editing before publication.

This post refers to one of my economic heroes, [Hyman Minsky](#), whose warnings remain as relevant now as ever as we face the near inevitability of another financial crash. His work also seems particularly pertinent to [my discussion of quantum economics and a new theory of work](#), published here this morning.

Hyman Minsky was one of the most prophetic economists of the twentieth century. For decades, he laboured in obscurity, ignored by the mainstream because he violated its most comforting assumption: that markets tend naturally toward equilibrium. Minsky insisted the opposite —that capitalism is a system hard-wired for instability —and that the financial sector is its most dangerous engine, as I believe it is once again.

In his now-famous 'Financial Instability Hypothesis,' Minsky argued that periods of calm are precisely when risk builds up. When the memory of crisis fades, lenders, investors, and policymakers all grow complacent. They take on more debt, extend more credit, and inflate asset prices until the system collapses under its own weight.

Crashes are not caused by shocks from outside. They are generated from within. Stability itself is destabilising.

That insight leads directly to The Minsky Question: *if stability in finance breeds the very instability that destroys it, why do we keep designing systems that pretend risk can be eliminated rather than managed?*

From hedge to speculative to Ponzi

Minsky's model of financial evolution was brutally simple. After every crisis, he argued that regulators tighten controls and firms act cautiously. Over time, confidence returns, memories fade, and financial behaviour shifts through three stages:

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The hedge finance stage, when borrowers can meet both interest and principal repayments from income.

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The speculative finance stage, when borrowers can meet interest, but must roll over principal.

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The Ponzi finance stage, when borrowers rely on rising asset prices to refinance both.

Eventually, the system is dominated by speculative and Ponzi finance and debt sustained by optimism rather than income. When prices stop rising (as they always do), defaults cascade, and the whole structure collapses.

Stability breeds complacency

Minsky suggested that every long boom contains the seeds of its own destruction. Periods of apparent stability convince both lenders and regulators that the system is safe. Leverage rises. Lending standards weaken. Innovations, whether they be junk bonds or derivatives and now crypto, promise new ways to make old risks disappear, but they don't in reality.

Minsky saw this clearly in the 1960s and 1970s, when deregulation and financial innovation were taking root. The longer the boom, the greater the eventual bust. The pattern has repeated ever since.

The crisis of 2008 — Minsky vindicated

When the global financial crisis erupted in 2008, Minsky's analysis was suddenly in the news. Mortgage lenders had built an edifice of speculative and Ponzi finance, sustained only by rising house prices and faith in perpetual appreciation.

When prices fell, the system imploded. Central banks bailed it out, but Minsky had warned that without structural reform, crises would recur. A financial system built on leverage and speculation will always return to instability precisely because its stability depends on forgetting.

The blindness of orthodoxy

Mainstream economics ignored Minsky because his world was messy. He rejected the

idea of rational expectations and equilibrium. He saw finance as dynamic, behavioural, and emotional, shaped by euphoria and fear. That did not fit the mathematical models of the neoliberal academy.

Worse, Minsky's insight threatened the ideology of self-regulating markets. If markets generate their own crises, they cannot be trusted to police themselves. State intervention becomes essential. For economists and politicians wedded to neoliberalism, that was heresy.

The moral hazard myth

Each crisis, Minsky warned, would provoke demands for rescue, and each rescue, unless accompanied by reform, would sow the seeds of the next crisis. Central banks have become perpetual fire-fighters. They save the system, but in doing so, they validate reckless behaviour.

This is the Minsky Paradox in policy form: saving the system each time makes the system more fragile next time. We socialise losses but privatise gains. The moral hazard belongs not to the poor but to the powerful.

The political economy of instability

For Minsky, finance was not merely a technical sector. It was the beating heart of capitalism. Credit creation determines who invests, who works, and who prospers. When finance is geared toward speculation rather than production, the economy becomes a casino.

The political consequences are enormous. Speculative booms inflate asset prices, enriching the wealthy. Crashes wipe out the savings of the poor. Austerity follows to "restore confidence," deepening inequality. Financial instability is not just economic turbulence; it is a mechanism of class power.

What a Minsky system would require

To answer the Minsky Question, we must abandon the illusion of perfect control and accept that instability is endemic — but manageable with the right institutions. That means:

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Active fiscal policy. Use government spending to stabilise employment and demand when private finance falters.

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Public control of credit. Guide lending toward productive, sustainable uses — green infrastructure, care, housing — not speculation.

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Counter-cyclical regulation. Tighten credit in booms, loosen in busts.

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Financial buffers. Require banks and shadow banks to hold capital sufficient to absorb losses without socialising them.

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Redistribution. Prevent asset bubbles by taxing windfall gains and wealth.

Above all, it means understanding that stability is a public good, not a private commodity.

Inference

The Minsky Question is as much moral as it is technical. If stability breeds instability, then our task is not to eliminate risk but to build systems resilient to it. That means rejecting the fantasy of self-regulating markets and confronting the interests that profit from fragility.

Every generation rediscovers Minsky the hard way, after the crash. Yet each time, we rebuild the same fragile edifice. We promise prudence, deregulate, inflate, and collapse again.

Minsky's warning remains unheeded: the crisis can, he said, happen again, and it will, until we design economies that serve society, not speculation. It is a warning most especially pertinent at this moment.

The real instability, Minsky argued, lies not in markets themselves, but in our refusal to learn. Will we ever do so?

Previous posts in this series

- * [***The economic questions***](#)
- * [***Economic questions: The Henry Ford Question***](#)
- * [***Economic questions: The Mark Carney Question***](#)
- * [***Economics questions: The Keynes question***](#)
- * [***Economics questions: The Karl Marx question***](#)
- * [***Economics questions: the Milton Friedman question***](#)
- * [***Economic questions: The Hayek question***](#)
- * [***Economic questions: The James Buchanan question***](#)
- * [***Economic questions: The J K Galbraith question***](#)

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