Systemic Fragility in the Global Economy

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The following text is the introduction to Jack Rasmus' Book

Half way through the second decade of the 21st century, evidence is growing that the global economy is becoming increasingly fragile. Not just in fact, but in potential as well. And not just in the financial sector but in the non-financial sector—i.e. in the 'real' economy.

The notion that the global crash of 2008-09 is over, and that the conditions that led to that severe bout of financial instability and epic contraction of the real economy, are somehow behind us is simply incorrect. The global economic crisis that erupted in 2008-09 is not over; it is merely morphing into new forms and shifting in terms of its primary locus. Initially centered in the USA-UK economies, it shifted to the weak links in the advanced economies between 2010-2014—the Eurozone and Japan. Beginning in 2014, it shifted again, a third time, to China and emerging markets where it has continued to deepen and evolve.

It is true that the main sources of instability today are not located in the real estate sector—the subprime mortgage market—or the credit and derivatives markets that were deeply integrated with that market. Nor is the real economy in a rapid economic contraction. The problem in the real economy is the drift toward economic stagnation, with global trade and real investment slowing, deflation emerging, and more economies slipping in and out of recession—from Japan to Brazil to Russia, to South Asia and Europe's periphery, even to Canada and beyond. On the financial side, it's the continued rise of excess liquidity and debt—corporate, government, and household—that is fueling new financial bubbles—in stocks in China, corporate junk bonds, leveraged loans, and exchange traded funds in the US, government bonds in Europe, in currency exchange and financial derivatives everywhere.

Financial instability events and crashes, and the real economic devastation that is typically wrought in their wake, do not necessarily occur in repeat fashion like some pre-recorded video rerun. The particulars and details are always different from one crisis to another. At times it's real estate and property markets (USA 1980s, Japan 1990s, global 2007). Other times stock markets (tech bust of 2000, China 2015). Or currency markets (Asian Meltdown 1997-98) or government bonds (Europe 2012). But the fundamentals are almost always the same.

What then are those fundamentals? How do they originate and develop, then interact and feed back on each other, creating the fragility in the global economic system that makes that system highly predisposed to the eruption of financial crises and subsequent contraction? What are the fundamentals that ensure, when some precipitating event occurs, that the financial instability and real contraction that follows occurs faster, descends deeper, and has a longer duration than some other more ‘normal’ financial event or normal recession? What are the transmission mechanisms that enable the feedbacks, intensify the instability, and exacerbate the crisis? And how do the fundamentals negate and limit the effectiveness of fiscal-monetary counter measures attempting to restore financial stability and real recovery? Indeed, what is meant by ‘systemic fragility’, why is it important, and why do most economists not address or consider it in their forecasts and analyses?

Fundamental Trends & Determinants

The book will argue there are 9 key fundamental trends underlying the growing fragility in the global economy include:

- the decades-long massive infusion of liquidity by central banks worldwide, especially the US central bank, the Federal Reserve, along with the increasing availability of ‘inside credit’ from the private banking system;

- the corresponding increase in private sector debt as investors leverage that massive liquidity injection and credit for purposes of investment;

- the relative redirection of total investment, from real investment to more profitable financial asset investment;

- a resultant slowing of investment into the real economy, as a shift to financial securities investment diverts and distorts normal investment flows;

- growing volatility in financial asset prices as excess liquidity, debt, and the shift to financial asset investing produces asset bubbles, asset inflation, and then deflation;

- a long run drift from inflation to disinflation of goods and services prices, and subsequently to deflation, as real investment flows are disrupted and real growth slows;

- a basic change in the structure of financial markets as new global financial institutions and new financial markets and securities are created, and an emerging new global finance capital elite arises, to accommodate the rising liquidity, debt, and shift to financial asset investment;

- parallel basic changes in labor markets resulting in stagnation and decline of wage incomes and rising household debt;

- growing ineffectiveness of fiscal and monetary policies as debt and incomes from financial assets rise, incomes from wages and salaries stagnate and household debt rises, and debt on government balance sheets increases while government income (taxes) slows—which together reduce the elasticities of response of investment and consumption to interest rates and multiplier effects from government fiscal policies.

Key Variables and Forms of Fragility

A main theme that emerges is that the preceding nine fundamental trends evolve and develop dynamically over time. Those nine trends also mutually determine each other, in the process contributing to a general condition of fragility in the economy. Systemic Fragility is therefore a dynamic condition that is first and foremost the consequence of the interaction of the above 9 key real factors or trends. In turn, those nine forces act upon three key variables to produce Systemic Fragility: debt, income required to service debt, and the 'terms and conditions of debt' (T&C).

Debt, income and T&C dynamically interact to raise fragility within the three main economic sectors—business financial, household consumption, and government balance sheet. However, systemic fragility is dynamic not only within a given form—i.e. the financial, consumption, and government—but also between them. Not only may the level of fragility grow as real trends raise the magnitudes of debt, income and T&C within a sector or form, but the interactions between the three variables within a sector may exacerbate the level of fragility as well. Moreover, the feedback effects between the financial, consumption, and government balance sheet forms of fragility can further exacerbate the intensity of fragility on a systemic level.

Fragility is therefore not a linear process, proceeding from one level to the next higher as debt or income rise and/or fall, respectively, as some have described it. It is a very dynamic process, with multiple feedback effects within and between its primary sectors or forms. Systemic fragility is not a simple adding up of levels of fragility that develop within financial, household, and government sectors of the economy. How fragility between those sectors mutually determine each other and raise fragility at a systemic level is equally important.

This focus on dynamic interactions requires identifying and explaining the 'transmission mechanisms' within and between the three fragility forms. Some of the more important 'transmission mechanisms' include the price systems associated with both financial assets and real goods, government policy shifts and changes, as well as the psychological expectations of various agents—in particular the investor-finance capital elite, households as consumers, and government policy makers at central banks, legislatures, and executive agencies. Emphasis is placed on the price systems as especially important transmission mechanisms for the development of fragility.

The dynamic interactions—i.e. the feedback effects and the enabling transmission mechanisms — intensify the overall fragility effect. Moreover, the intensity due to interactions or 'feedback effects' varies with the phase and condition of the business cycle.

Fragility is therefore more than just the sum of its three parts. It is a dynamic process and that process has a historical trajectory based on real conditions as well as subjective, psychological expectations of real actor-agents. Because fragility is the product of internal trends and variables, it develops and grows endogenously, as economists say.

Another important characteristic is that rising systemic fragility renders the global economy more prone to eruptions of financial instability, on the one hand, and further contributes to accelerated contractions of the real economy in the wake of the instability events when they occur. That acceleration leads to a deeper and therefore often longer duration of real contractions.

Two important corollary themes follow from the general analysis of Systemic Fragility in this book. Both challenge prevailing economic orthodoxy. Both reject the notion that the global capitalist economy, in national or global form, tends to be long run stable and returns to equilibrium due to market forces and/or government policy intervention when unstable.

The first challenged orthodox assumption is that the capitalist price system will work its supply and demand 'magic' at the level of markets to restore equilibrium and stability.

Contrary to contemporary economic analysis, the analysis of Systemic Fragility that follows maintains the price system is not a force for stabilization. Rather, in the 21st century it has increasingly become a force for destabilizing the system. That is particularly true of the role played by financial asset prices. Not all price systems are the same. There is no ‘one price system’ that fits all, where supply and demand together work to moderate instability, which is a major tenet of mainstream economic analysis. There are instead several price systems. More volatile financial asset prices behave differently and appear increasingly to drive goods (products), factor (wage or labor prices) and even money prices (interest rates) in the 21st century as financial asset investing becomes increasingly dominant within global capitalism and real asset investment in turn declines.

A second challenged orthodox assumption is that government fiscal-monetary policies can stabilize the system when such policy action is used to complement pure market forces and the one price system. However, as the analysis of Systemic Fragility will argue, this is increasingly less the case as fragility builds within the global system. Systemic fragility blunts and reduces fiscal-monetary policies aimed at generating a recovery by negating in part the effects of elasticities of monetary policy and interest rate changes and multiplier effects on government spending and tax policies. Weaker and unsustainable recoveries are the result of the growing ineffectiveness of fiscal-monetary policies in attempts to stabilize the system, whether financially or in real terms. The failure of such policies is manifested in economic growth ‘relapses’ (sharp slowing or negative growth for single quarters) or short and shallow repeated descents into recessions. Those subpar recoveries may also, under certain conditions, descend into bona fide economic depressions.

Instability in the Real Economy

As chapters 1 and 2 that follow will address in more detail, the real side of the global economy is slowing. That slowdown was temporarily masked by the brief surge in China and emerging market economies’ (EMEs) growth that occurred between 2010-13 for specific, but temporary, reasons. Initial signs that regional growth in China-EMEs was beginning to dissipate emerged in late 2013. Since then the forces underpinning that growth have weakened further, and now in 2015 growth is slowing in that region more rapidly.

Globally the real goods producing economy is likely already in a global recession. Industrial production is falling, durable goods and factory output is slowing or declining in many countries. Investment in real assets is down sharply, incomes associated with production are stagnating or declining, productivity is almost stagnant, and a general drift toward disinflation and deflation has been underway for some time.

Perhaps the best indicators of this real slowdown is the collapse of world commodity and oil prices. Key industrial commodity prices like iron ore, copper and other key metals have collapsed by more than half, and crude oil by two-thirds from levels just a few years ago. Non-metal commodity prices have fared little better. Country economies highly dependent on such production and export are nearly all in recession, or quickly approaching it: Brazil, Russia, Venezuela, Nigeria, South Africa, and even Australia and Canada. China’s economy is undoubtedly growing at no more than 5% annually, much less than the officially reported 7%, and well below the 10%-12% of just a few years ago. And as China slows, so too do various South Asia economies, highly integrated and dependent upon China’s economic performance.

Europe has been oscillating at an historical, sub-par rate of growth between -1% to 1%, after having experienced a double-dip recession in 2011-13, and an historic weak recovery in some of its strongest economies thereafter—including France, Italy and even Germany. Today those same economies continue to struggle to fully recover. Meanwhile Europe's periphery languishes in continued recession, not just the southern but now the northern, Scandinavian and Baltic regions as well.

At the same time, the world's fourth largest geographic unit, Japan, lapses in and out of recessions—four since the 2008-09 crash, despite having introduced a multi-trillion dollar quantitative easing central bank monetary injection since 2013. That injection produced a brief stock market surge but no substantial effect on its real economy or growth, which is slipping into recession yet again.

The much-hyped 'healthy recovery' of the US economy is, moreover, mostly media and politician spin. The US economy has experienced four 'relapses' in its real growth since 2010, where growth collapses for a quarter or turns negative. To the extent that real growth has occurred it has been in the shale-oil patch and associated transport and industrial production activity. That has been coming rapidly to an end, however, as global oil prices in 2015 have collapsed a second time, and may fall to as low as $30 a barrel by some estimates. US real unemployment is still around 12%, masked by gains in low pay, part time and temp jobs in the service sector. US exports and manufacturing are slowing, as the dollar rises from long term interest rate upward drift, and soon rises further due to short term rate increases by central bank action expected in late 2015. Construction remains stagnant at levels well below 2006-07's previous peak, as only high end income households can afford housing purchases. Household consumption remains mostly debt-financed as median incomes decline and wage growth seven years after the 2008 crash still fails to appear. Meanwhile, government agencies redefine what constitutes US GDP and growth as a means of boosting growth figures.

After the weakest recovery in more than a half century itself disappears, growing desperation with the slowing real economy, has led government policy makers to try to obtain for their corporations a slightly higher share of the slowing world trade and production pie. In Europe and Japan, the response has been to de facto devalue their currencies by means of QE and massive money injections in order to lower production costs and stimulate exports. An accompanying hope is that the currency devaluation will also stimulate stock and bond investments that might in turn raise domestic real investment. But neither has succeeded in either economy. So Europe has already begun, and Japan plans, to press for more cost reduction through 'labor market reforms' that reduce wage costs—the alternative option.

Dueling QEs and de facto currency devaluations have only set off currency wars. European and Japanese efforts to in effect 'export' their slow growth, have only resulted in China, Asia, and EMEs also devaluing their currencies to boost their exports, setting in motion a 'race to the bottom'—with Europe and Japan almost certain to introduce yet more rounds of QE in 2016 in response.

Unlike in 2010-12 there is no China-EME growth surge mitigating the failed recoveries in Europe, US, and Japan. Now the former are leading the global real economic slowdown. And there is no evidence the advanced economies of US, Europe and Japan will assume the bolstering role previously played by China-EME in turn. In fact, as the China-EME slowdown accelerates, Europe and Japan will be further affected. And US manufacturing and industrial production will slow further as well, as long term interest rates and the value of the US dollar continue to drift upward regardless what the Federal Reserve does with short term rates in 2015 and beyond.

Financial Instability in the Global Economy

No less evident is a growing financial instability in the global economy at mid-year 2015. At the top of that list are the events unfolding in China's equity markets, and, behind that, continuing instability in financing for local government infrastructure, residential and commercial housing, in asset management financial products, and in the financing of old line industrial companies many of which are now technically bankrupt.

A classic bubble in China's major stock markets began in 2014, resulting in a 120% increase in stock values in just one year. Implementing government policies intended to redirect excess liquidity and financial speculation away from out of control shadow bank financing in local government infrastructure and housing, China in effect redirected excess liquidity and capital into its equity markets. The strategy had the added objective of finding a way to stimulate real investment from private sources by means of engineering an escalation in financial equity assets. It was hoped the wealth effect from equities inflation would also stimulate private consumption. The increased reliance on private investment and consumption would in turn reduce the need for the Chinese government to generate economic growth by means of the prior strategy: increased government direct investment, with massive central bank and foreign capital money inflows in support, and manufacturing exports growth as well. That prior strategy had run its course by 2012-13 and China began to shift to the new private sector driven strategy. But China central bank money injection, foreign money inflows, and redirection of money capital from China's bubbles in real estate to China's equity markets did not produce real economy investment any more than money injection via QEs did in Europe, Japan or the US-UK. Instead, it set off a financial bubble in China stocks.

The China stock bubble then began to unwind in June 2015 with a loss of more than $4 trillion, the consequences of which are still unfolding in global financial markets.

One such consequence has been the intensification of competitive devaluations and a ratcheting up of currency wars in the $5.7 trillion global currency exchange markets. Already festering with the introduction of $1.7 trillion and $1.3 trillion in dueling QEs by Japan in 2014 and the Eurozone in 2015, currency wars have clearly accelerated further with yet unclear consequences for both financial, and real, instability in the global economy. With its stock markets unwinding, China subsequently returned in part to an export driven strategy to boost its already rapidly slowing real economy. That has taken the form of initially a 2%-4% decline in its currency, the Renminbi-Yuan. Currencies quickly responded in Asia and beyond to the China stock decline, currency devaluation, and the likelihood of more of the same as China's real economy slows.

China events have accelerated the already sharp declines in currency exchange rates, with the Euro and Japanese Yen already down by 30% since 2014, and now major Asian currencies rapidly declining as well from Indonesia to Thailand to Singapore, Taiwan, and even Australia and South Korea.

The obvious spillover and contagion underway by late summer 2015 has been increasing volatility and contraction in stock market prices globally. Collapsing currencies and stock markets mean accelerating capital flight from EMEs and even China. To try to slow the outflow, EMEs raise their domestic interest rates, which slows their domestic real economies further, producing more stock price collapse.

Growing financial instability in stock and currency markets subsequently begin to feed off of each other at some point, a condition which the global economy may have already entered.

Financial instability may be reflected in escalating financial asset price bubbles, or the unwinding and collapse of those bubbles. The collapse of world oil and commodity prices that have been underway since 2013-14, and now appear accelerating once again in summer 2015, are another strong indicator of growing financial instability in the global economy.

Continuing economic stagnation in Europe, Japan, and to a lesser extent in the US economies has resulted in world commodity and oil price weakness. China's real economic retreat since 2014 has exacerbated that weakness. And in crude oil markets, the intensifying competition between capitalist energy producers in the US shale-oil fields and the Saudi-Gulf led producers has driven oil price decline still further. Collapsing in 2014 from $120 a barrel to $50 in early 2015, crude prices have again begun to descend further and could go as low as $30 a barrel according to some estimates. The collapse of world oil prices—a financial asset as well as a natural resource—will have further negative effects on financial markets no doubt, especially when combined with general commodity price deflation that continues without relief.

Thus at the top of the list of financial instability today are fragile and collapsing equity markets, extreme volatility in currency markets, and the continued collapse of global commodity prices and oil.

But other financial assets are also in bubble 'range' in 2015, as a result of the massive excess liquidity injected into the world economy since 2008 and the resulting escalation of debt, especially on the corporate and banking side of total debt.

Record low central bank engineered rates since 2008, virtually zero for bank borrowers, has injected at minimum $15 trillion into the global economy. That's in addition to the nearly $10 trillion in central bank QE injections. Moreover, both forms of liquidity creation are still continuing. Liquidity has generated record financial asset prices—from stocks, corporate bonds, and sovereign bonds to derivatives, exchange rate speculation, and other forms of financial assets.

Bubbles in corporate bonds are also at a peak, not yet as obvious a problem as stock prices, commodity prices, or currency exchange rates. But they will be. At high risk are corporate junk bonds, which may yet be impacted by collapsing oil prices and corporate defaults in the US shale-oil sector spilling over to other corporations. Less unstable, but no less a 'bubble', are corporate investment grade bonds. Global issuance averaged less than $1.5 trillion a year in the half decade leading up to the 2008 crash. In the past five years since 2010, that annual average issuance is more than $2.5 trillion—i.e. more than $5 trillion additional issued compared to historical averages.

Government bonds have entered unknown territory as well, especially in Europe, where they increasingly sell at negative rates. That is, buyers pay governments interest to buy their sovereign bonds, instead of vice-versa, in order to find a temporary safe haven for their excess liquidity. The bond world is turned on its head, with yet unknown consequences for future financial instability, witness the bond 'flash crash' of a few years ago, the causes of which are still unknown. There is a growing problem of disappearing liquidity in the bond trader market, as banks exit and more risk taking shadow banks assume their role, amid warnings of the possibility of an even faster collapse of bond prices due to lack of liquidity in the bond trading sector. It is unlikely that a new financial instability event will involve subprime mortgages. A classic stock market crash may prove the precipitating event. Or perhaps a bond market crash. Should the latter happen in the much larger bond sectors of the global economy, it will make a subprime mortgage or even stock market crash appear mild in comparison.

Behind the more obvious stock, bond, commodity, oil, and currency instability—all of which are now rising as of late 2015, there are numerous smaller but perhaps even potentially more unstable financial asset markets globally.

There are leveraged loans and debt markets now helping to fuel a record mergers and acquisition boom. There are exchange traded funds (ETFs) in which retail investors are over-exposed as they desperately search for 'yield' (higher returns) on increasingly risky investments. There are localized real estate bubbles in London, US, Scandinavia, Paris, and Australia as wealthy investors flee with their capital from China and emerging markets to invest in preferred high end properties in the advanced economies. There are bank to bank 'repo' markets in the US where liquidity appears insufficient and shadow bankers are allowed to play a larger role. And then there are the various unknown conditions in global derivatives trading, where much of the pure 'betting' and speculating on financial securities remains still very opaque seven years after the 2008 crash when derivatives played a strategic role in the rapid spread of financial contagion from the subprime bust.

In short, there are any number of growing sources of financial instability in the global economy today. And the direction in nearly all appears to be a continuing drift toward more fragility and instability, not less.

In the book that follows, fragility is viewed as a key condition that leads to financial instability and may itself even precipitate a financial instability event— banking crashes, stock market collapses, credit crises, widespread liquidity and even solvency crises across sectors or major institutions, plunging currency exchange rates and money capital flight, a collapse of financial asset values, and/or defaults and bankruptcies—to name the most obvious. Depending on the scope and severity of the financial instability events, the real economic downturn that follows a financial crisis-precipitated contraction is qualitatively and quantitatively different from what might be called a 'normal' recession. Some economists have called this a 'great recession'. Having taken issue with that term, this writer has referred to it as an 'epic' recession—i.e. a kind of muted depression.

Whichever the term chosen, it appears a drift toward another more serious instability event is underway in the global economy. Fragility is growing system-wide, and fragility leads to, and indeed may precipitate, financial instability on a scale sufficient to generate another contraction in the real economy. And while fragility leads to financial instability, which may precipitate and then exacerbate a subsequent contraction in the real economy, the latter contraction in turn tends to exacerbate systemic fragility as well. A self-sustaining negative cycle of financial and real instability can occur. And policy makers today are far less prepared or able to deal with it than previously

Outline of the Book

Following a brief overview addressing the consistently over-optimistic forecasts of global growth by business and international economic bodies in chapters 1-2, recent key global developments are highlighted in chapters 3-6 that reveal the global economy in 2015 is experiencing greater potential for financial instability than ever since 2007-08.

Chapters 3-6 provide selected cases reflecting today's growing instability in global oil and commodity markets; the steadily intensifying commodity price deflation; Emerging Market Economies' collapsing currencies, capital flight, growing local financial market instability, rising import inflation, and declining export income necessary to finance dangerously accelerating external debt; the growing desperation of policy makers and central bankers in Europe and Japan to jump start their economies, as they introduce 'dueling QEs' and 'internal devaluations' designed to reduce labor costs in an effort to drive down their currencies in order to capture a larger share of exports amidst a slowing of total world trade; and the growing financial asset bubbles in China which policy makers there have been unable to contain or reduce. Whether China, Europe-Japan, Emerging Markets, or Global Oil-Commodities—all reflect financial instabilities in the global economy at a time when a growing number of real economies continue to weaken as well. These developments and events serve, one might argue, as the 'canaries in the global financial coal mine'.

In Part Two of the book, chapters 7 through 15, the discussion moves from selected case narratives highlighting the most obvious contemporary evidence of global instability—in emerging markets, Europe and Japan, and China—to a deeper level discussion focusing on 9 key variables behind the next financial crisis now developing endogenously within the global financial system today. Here discussion focuses on the real, material conditions and forces that underlie the appearances of the crisis.

Part Two provides a transition to the all important need for theory to understand where the global economic has been, is now, and, most important, where it may be going in the coming years. Without the projections enabled by theory, only empirical narratives remain. Without coming to grips with the most important information of the past, descriptions of the present can provide no accurate forecast of the future. Unfortunately, this is the state of much of contemporary economic analysis today.

But what are the limitations of contemporary economic analysis on the subjects of financial instability, investment, and the relationships between financial cycles and real cycles? That is the subject of Part Three and chapters 16-18 of this book. Chapter 16 critiques in detail the two major wings of contemporary mainstream economic analysts—what this writer has termed 'Hybrid Keynesians' and 'Retro-Classicalists'. It is argued that neither wing sufficiently understands the relationships between financial asset investment, real asset investment, and what this book views as the accelerating 'speculative investment shift' that is the consequence of those new relationships. Nor does either sufficiently understand how debt and incomes have grown increasingly mutually interdependent in a negative way, instead of functioning individually as positive sources of economic growth. Both misunderstand how financial asset prices destabilize the system. And both have an overly optimistic assessment of the role of traditional policies—the one monetary and the other fiscal. Their largely shared conceptual apparatus thus serves as an obstacle to understanding the new characteristics of the 21st century capitalist economy.

Chapter 17 challenges the dominant wing of Marxist economic analysis today that argues the falling rate of profit from production of real goods (by what Marxists define as productive labor) is the key (and virtually only) driver of the slowing of the global economy and in turn is responsible for the shift to financialization of the economy. This book will argue that this is a kind of 'mechanical' application of Marxism that ignores and misunderstands the exchange side of the circuit of capital that Marx himself never fully developed. The falling rate of profit approach (FROP) represents a 'glass half filled' theory. It views all instability as determined by the production of real goods by only productive labor—i.e. those workers who produce real goods and related support services. Causation between the real and financial sides of the economy are viewed as a 'one way street' only, from production to financial, instead of a more likely mutual interaction between the two sectors. What the falling rate of profit theorists fundamentally fail to understand, it will be argued, is that it is investment that drives the economy—not a particular form of financing—i.e. profits—that drive investment.

Like the two wings of mainstream economists, the FROP wing of Marxist economic analysis thus lacks an adequate conceptual apparatus for properly understanding the relationships between financial asset and real asset investing in the 21st century global economy. In important ways, none of the three wings accurately reflect the richer views and ideas of those economists with whom they are associated. The 'Hybrid' Keynesians distort Keynes; the 'Retro-Classicalists' also misrepresent Keynes and others in their effort to restore classical economic analysis of the 18th-19th century, and the 'Mechanical Marxists' fail to understand Marx's own method and to recognize where Marx was going in his final thoughts on banking, finance, and new forms of exploitation only beginning to emerge in late 19th century capitalism.

Chapter 18 addresses the major contributions by the economist, Hyman Minsky, whose work is most associated with the idea of what he called financial fragility. Writing mostly in the 1980s and 1990s, Minsky broke new ground in a number of ways on the subject of how financial cycles and real cycles mutually impact. His key contributions are noted. However, much was left unsaid by Minsky, who did not get to see the 21st century's full manifestation of his initial observations. While noting his contributions, this chapter describes in detail the limits of his theory as of the mid-1990s, suggesting where it might have had to go in order to more fully explain how fragility in general is a major determinant of both financial and real instability of the global economy in the 21st century.

Part Four of this book provides this writer's own analysis and theory of where the global economic crisis has been, and where it may be headed. That analysis is subsumed under the conceptual notion of 'Systemic Fragility', that has been referenced and raised in part in the preceding chapters, and which is summarized in more detail in this final chapter 19, 'A Theory of Systemic Fragility'. Accompanying this summary chapter is an addendum, consisting of equations that represent the main arguments of chapter 19.

The concluding chapter's preliminary statement of a theory of Systemic Fragility is envisioned as an effort to begin to develop a new conceptual framework for the analysis of financial and real cycle interactions that represent the dominant characteristics of the capitalist global economy in the 21st century. It is viewed as merely a first step."

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