Macro Roundup Article

Headline: Slow Burn Minsky Moments (And What To Do About Them)

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Tweet: James Montier of GMO argues that elevated debt levels in the US over the past 20 years have created a cascading "slow burn Minsky moments."

Summary: The late, great Rudi Dornbusch once opined, “The crisis takes a much longer time in coming than you think, and then it happens much faster than you would have thought.”. This idea got me thinking about what I am calling “slow burn Minsky moments.” Recall that Minsky’s financial instability hypothesis holds that stability begets instability. In essence, I am referring to situations characterized by economically unsustainable processes or systemic vulnerabilities that build up during “good times” but carry within them either the seeds of their own destruction or create fragilities that exacerbate any external shock far beyond what may have been commonly expected. Richard Vague suggests that a ratio of private sector debt to GDP in excess of 150% is an important threshold. As Exhibit 1 shows, the U.S. has spent most of the last 20 years at or above this level! No wonder we have experienced a litany of financial crises over this period.

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