

Introduction

- ▶ **Minsky 's Financial Instability Hypothesis & the current crisis**
 - ▶ Discussions about its applicability, the effectiveness of Big Bank & Big Government,
 - ▶ Some papers highlighting its institutional foundations (Whalen, 2007, Wray, 2008, Dimsky, 2010)

- ▶ **According to Minsky,**
 - ▶ *"institutions must be brought into the analysis at the beginning; useful theory is institution specific"* (Papadimitriou and Wray (1997))
 - ▶ *"Endogenous interaction can lead to incoherence and the impact of institutions and interventions aim to contain these thrusts towards incoherence."* (Delli Gatti, Gallegatti and Minsky, 1994, p3)
 - ▶ Institutions 's key function : stabilizing the economy

Research objective

- ▶ Fundamental role of institutions, yet limited place in the literature
 - ▶ Mainly limited to Minsky's latest papers
 - ▶ Unachieved (?) and sometimes ambiguous
 - ▶ Still to be done : synthesis, extension & application to current debates

⇒ Objective = contributing to this theoretical project

⇒ Synthesis & interpretation of the literature

Contribution

- ▶ A synthesis addressing 3 Main limits of Minsky's institutional approach
 - ▶ Definition of institutions
 - ▶ Global vision of the institutional mechanisms & the FIH
 - ▶ Justification
- ▶ Proposal
 - ▶ Successively address these 3 limits through :
 - ▶ Detailed reading of Minsky's writing
 - ▶ Mobilisation of key complementary proposals (Arestis and Glickman, 2002, Arestis, Nissanke and Stein, 2003, Whalen, 1996, Nissanke and Stein, 2003, Thabet, 2006)
 - ▶ Interpretation in the light of recent economic theory

1- Definition of institution forms

- ▶ Rooted in American Institutionalists & esp. Commons "*unorganized customs*" and "*going concerns*"
- ▶ Institutional forms

<i>Commons</i>	<i>Minsky</i>	<i>Arestis, Nissanke & Stein (2003)</i>
Unorganised concerns	Institutions & habits (<i>"orthodox barrier"</i>)	Habits
		Incitations
		Rules & norms
Going concern	Administration (<i>enforcing rules & norms</i>)	Surveillance
	Authorities (<i>edicting rules & norms</i>)	<i>Regulatory organisation (édicting rules & norms)</i>

2- Ways of intervention of institutions in the FIH

- ▶ 2 key mechanisms (Minsky and Ferry, 1992)
 - ▶ (i) "*internal dynamics of capitalism*" => spontaneous mechanisms
 - ▶ (ii) "*interventions and regulatory systems*" => intentional mechanisms

=> To be related with the 5 institutional forms
- ▶ Historical approach (Minsky and Whalen, 1996)
 - ▶ Stages of development of capitalism

=> Identify key mutations of financial systems
- ▶ Two inter-related ways of intervention which can lead to ineffective institutional framework
 - ▶ Weakened
 - ▶ Inadapted or vacant

= institutional fragility

3 – Theoretical perspective

- ▶ Which justification in the light of recent approach of institutions ?
 - ▶ Asymetries of information (?)
 - ▶ Cognitive biases
 - ▶ Procyclicality of risk (Borio *et al*, 2001, Borio, 2003)
⇒ Inherent to financial systems
- ▶ To be related to financial systems' developments (historical approach)

Concluding remarks

- ▶ **Perspectives : a new perspective in the debate about international financial regulation**

"institutions and government interventions can play a positive role, in that, if well used, they contain the degenerative tendencies of capitalist economies" (Delli Gatti, Gallegatti and Minsky, 1994, p3).

- ▶ Need for a global regulation (addressing each institutional form) and including a historical perspective
- ▶ Institutions : not (only) managing market and individual imperfections
- ▶ **Future research should focus on contribution of this analysis to the international financial governance debate**