The evolution of Minsky regimes in the U.S. nonfinancial corporate sector

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The evolution of financial fragility among U.S. firms

An empirical mapping of Minskian concepts of fragility into U.S. firm data since 1970.

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    - Rather than becoming more/less fragile over business cycle.
4. The spread of Ponzi is widespread; not driven by specific sectors.

The financial instability hypothesis

Degree of fragility is cyclical:

- ‘Stability breeds instability.’ A larger share of fragile agents makes the economy more vulnerable to shocks. (Minsky, 1975, 1986, 1992).

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Systemic financial fragility is determined by the distribution of units into three financing regimes:

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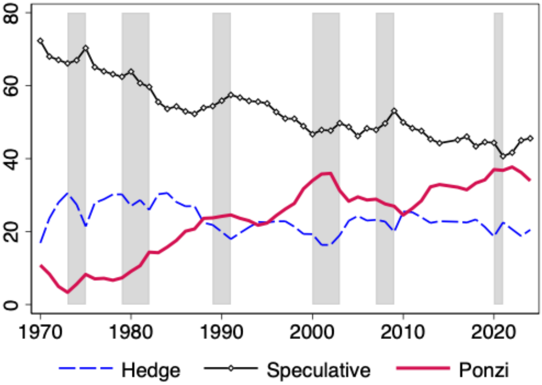
To classify firms, compare net **sources of funds** to **required debt payments** (Davis, de Souza, and Hernandez, 2019).

- Scope: listed U.S. nonfinancial firms since 1970 (Compustat data).

The growth of Ponzi finance

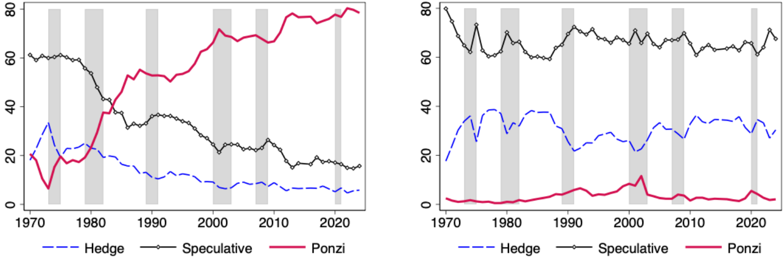
Percent of U.S. listed firms by financing regime, 1970-2024



Source: Based on Davis, de Souza, & Hernandez (2019)

The growth of Ponzi finance by firm size

Percent of small and large firms by financing regime, 1970-2024



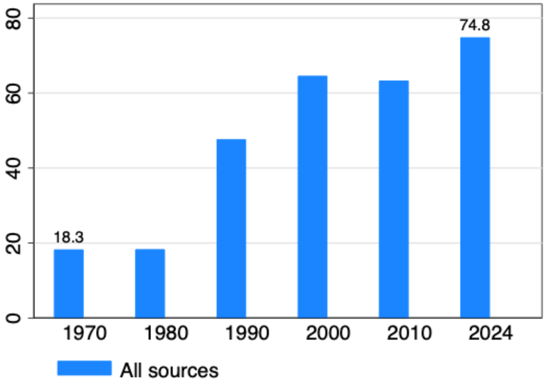
Bottom quartile

Top quartile

Source: Based on Davis, de Souza, & Hernandez (2019)

Negative sources of cash

Percent of small firms with negative sources of cash



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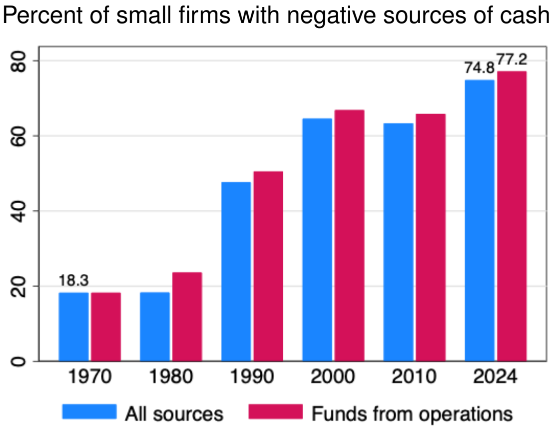

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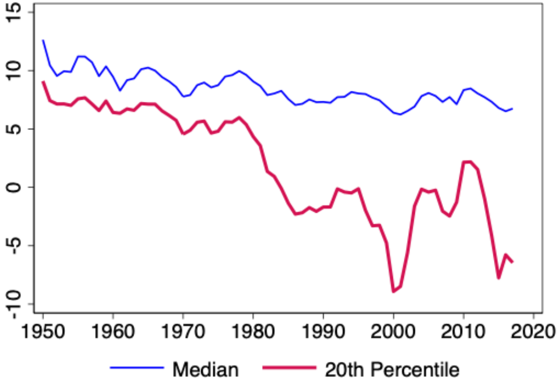
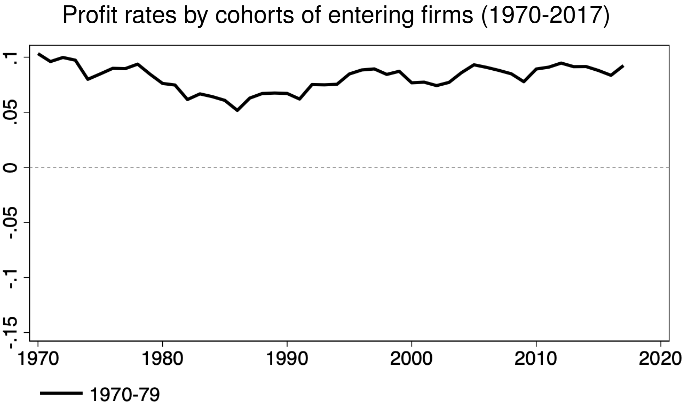
The falling bottom of the profitability distribution

The 20th and 50th percentiles of profitability (1950-2017)



Source: Davis & de Souza (2022)

The growing prevalence of negative profits



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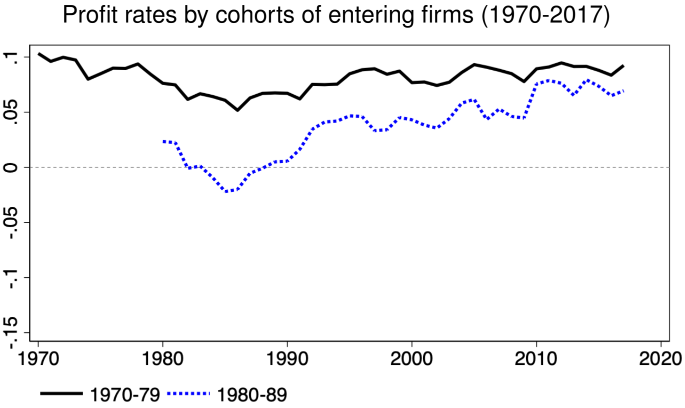

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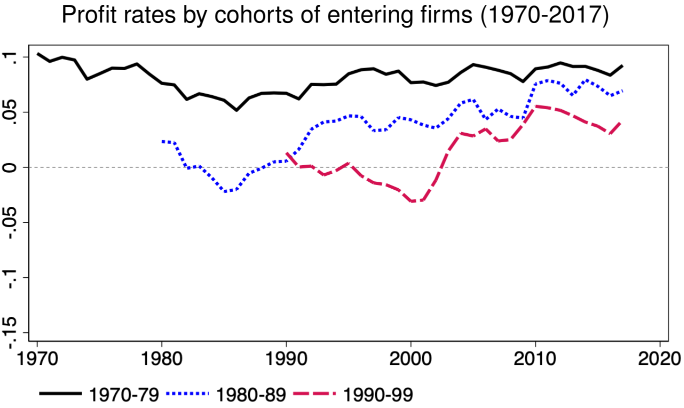

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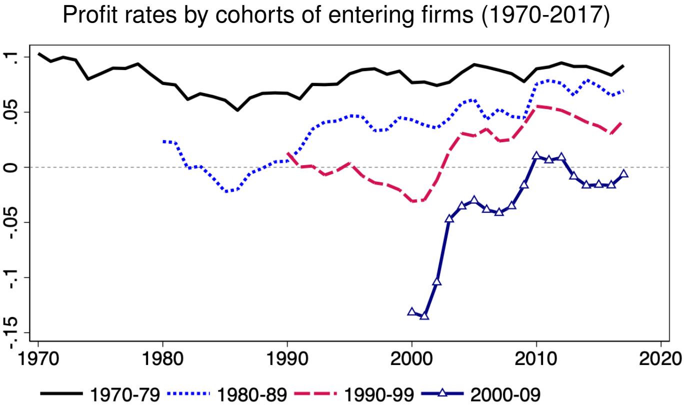

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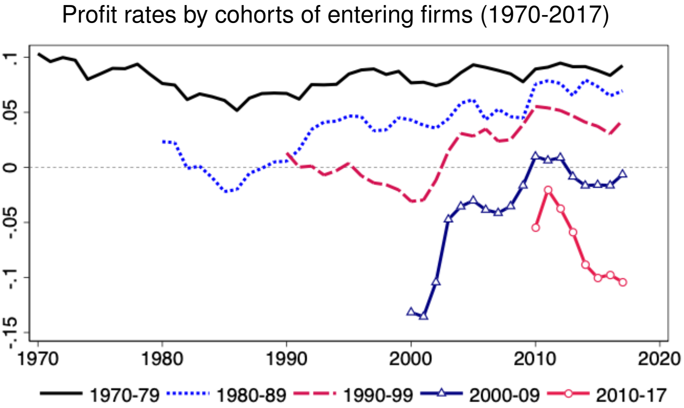

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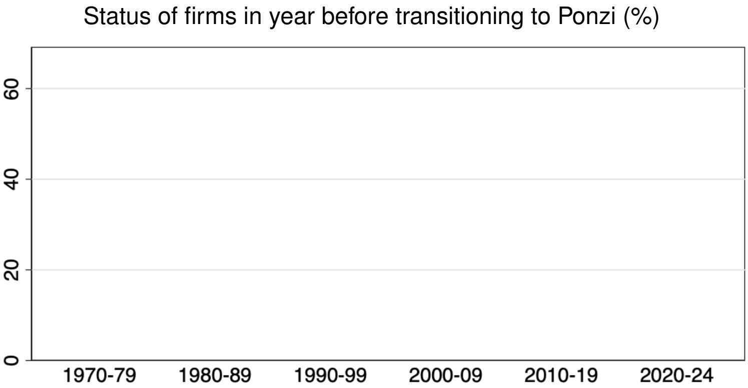
How do firms become Ponzi? The role of **entry**



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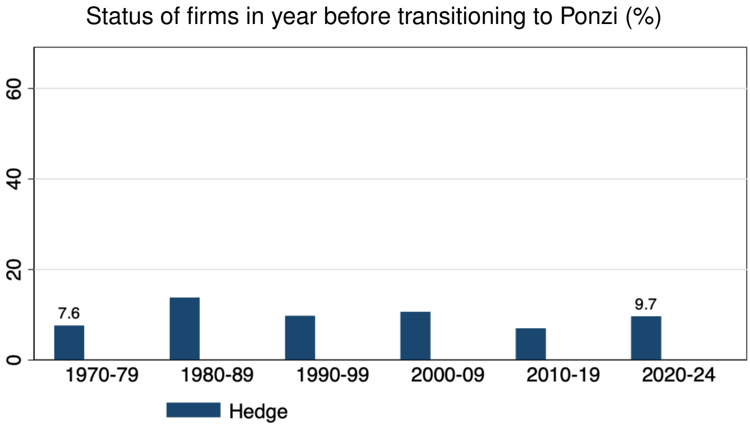

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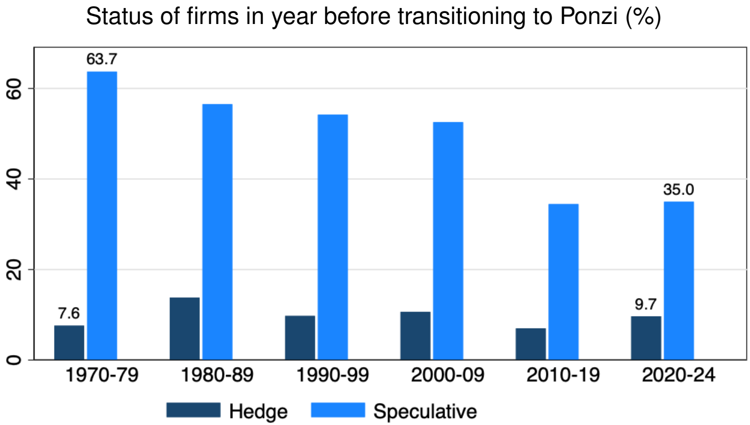

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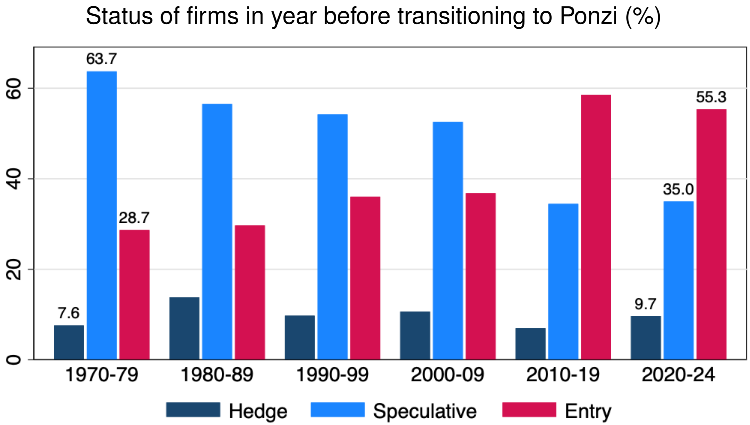

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How do firms become Ponzi? The **business cycle**

What is the short-run effect of business cycle fluctuations on fragility?

- We estimate the relationship between cyclical component of GDP (or GDP growth) and probability of being Ponzi.

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Regression results show:

- Business cycle downturns are associated with an almost-zero increased probability of Ponzi.
  - A 1 standard deviation decline in real GDP growth $\rightarrow$ 0.7 percentage point increase in the probability of Ponzi.
  - Unconditional likelihood of Ponzi is 17.5%.

Source: Davis, de Souza, & Hernandez (2019)

Is this a story of structural change?

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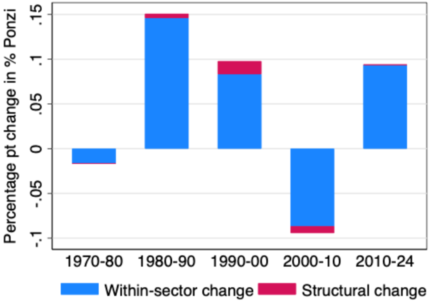
Does the growth of Ponzi finance simply reflect structural change?

- Information & Communications Technologies.
- No! Ponzi structures have grown across sectors of the US economy.

Within-sector growth of Ponzi v. structural change



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Conclusions

A long wave of increasingly fragile finance among listed U.S. firms.

- The share of Ponzi firms has risen.
- Concentrated among small firms that *list* as Ponzi.
- And are Ponzi because of negative profits.

Changing norms about who gets access to equity finance.

- Individual firms are not cycling through more & then less fragile regimes.
  - In fact, the effect of business cycles on the likelihood of Ponzi is very small.
- Instead, institutions determining access to equity finance disseminate changing norms of profitability and fragility for listed U.S. firms after 1980.