Minsky Moment

Idea In Short

Do not confuse calm with safety. A Minsky moment matters because long stretches of apparent stability can invite progressively riskier behavior, more leverage, looser standards and stronger belief that adverse scenarios are unlikely. The immediate leadership decision is to ask what hidden fragilities are being built precisely because conditions have looked benign for so long. Executives often treat stability as proof that the system is sound. Sometimes it is. But sometimes stability itself changes behavior in ways that make the system more vulnerable. When the shock finally arrives, the adjustment can be abrupt because balance sheets, expectations and risk models were built for continuity rather than reversal.

A Minsky moment describes the sudden break that can occur after a long period of apparent stability encourages greater risk-taking. During the calm phase, confidence rises, leverage expands and participants become more willing to assume that favorable conditions will continue. The eventual shock may appear surprising, but the vulnerability was often building quietly in advance.1

Why stability can create fragility

Long stable periods change behavior. Lenders loosen standards, investors accept thinner margins of safety, firms rely on cheap funding and decision-makers start to treat low volatility as evidence that risk itself has faded. As these patterns reinforce one another, the system becomes more dependent on continued calm.

This is the core insight associated with Hyman Minsky. Stability is not just a pleasant backdrop. It can alter incentives and beliefs in ways that increase leverage and reduce caution. What looks safer on the surface can become more brittle underneath.

That is why the eventual reversal often feels discontinuous.

How the break happens

A Minsky moment does not always require a massive external shock. Sometimes a relatively modest trigger is enough because the system has become highly sensitive. When confidence weakens, funding can tighten, asset values can fall, collateral can be questioned and previously acceptable leverage can become dangerous very quickly.

The speed of the transition matters. During the expansion, risk builds gradually. During the correction, positions may need to unwind quickly. This asymmetry is one reason crises feel so abrupt even when the seeds were visible in hindsight.

The break is less about one event than about the fragility the event reveals.

What leaders should watch for

Leaders should pay attention to leverage, liquidity assumptions, concentration, maturity mismatch and narratives that imply permanence. They should also ask whether success is making the organization more disciplined or merely more confident. A system that looks strong because nothing bad has happened recently may be mistaking luck for resilience.

This applies beyond financial markets. Any organization can grow fragile when favorable conditions reduce skepticism and increase dependence on one environment continuing. The visible calm can hide the behavioral shift that creates later trouble.

That is why countercyclical thinking matters so much.

What leaders should remember

Leaders should remember that risk often accumulates when few people feel urgency about it. The better question during stable periods is not simply whether performance is good. It is whether the conditions supporting that performance have encouraged assumptions that would fail under stress.

The enduring lesson of the Minsky moment is simple. Prolonged stability can encourage risk-taking until even a modest shock exposes deep fragility and triggers instability.2, 3

- 1Minsky Moment
- 2Hyman Minsky And Financial Instability
- 3Financial Instability Hypothesis Overview

Summary

The Minsky moment remains a powerful idea because it explains why instability can emerge endogenously from success and calm, not only from obvious external disorder. Investors, firms and institutions often take on more risk when recent history makes that risk appear manageable. Then a trigger exposes how dependent the system had become on confidence and favorable conditions. The deeper lesson is not that stability is bad. It is that prolonged stability can breed assumptions and structures that make the eventual correction harsher. Leaders who understand this watch for hidden leverage, compressed risk premiums and narratives of permanence before the break occurs.