

THE HYPERLEDGER FINANCIAL MARKETS SPECIAL INTEREST GROUP-**US/EUROPE**



Crypto's Minsky Moment

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Themes

1. Minsky's contributions
2. Minsky Moment
3. FTX collapse
4. Contagion
5. The Remedy

Minsky's contributions

1. Reinterpreted Keynes -
2. Against Classical Market Views - Infinitely Selfish (Maximise Utility) and ~~Infinitely Farsighted~~ -- Poincare
3. The economy is **not** an equilibrium seeking and sustaining system
4. Was ignored, then came into prominence during the 2007-2008 crisis

Empirical Evidence

1. Crises of 1873 and 1893
2. Panic of 1907
3. The Great Depression 1930s
4. 1966, 1970
5. 1980- Hunt Brothers
6. S&L Crisis
7. 2007-2008 MBS crisis
8. etc.etc.

Bank Runs



Financial Instability Hypothesis

- ❖ **Background:** economy as a capitalist economy with expensive capital assets and a complex, sophisticated financial system moving through time.
- ❖ Present Money is exchanged for future money
- ❖ Enthusiasts vs. sceptics
- ❖ Businesses, Households, Governments, International Institutions-have liability structures

Financial Instability Hypothesis-2

Survival or reserve constraint

Types of Economic units

Hedge: fulfill all of their contractual payment obligations by their cash flows (equity predominates)

Speculative: can meet their payment commitments on interest, but not principal.

Ponzi: Cannot pay their interest nor principal from cash flows

Financial Instability Hypothesis-3

The first theorem: the economy has financing regimes under which it is stable, and financing regimes in which it is unstable.

The second theorem: over periods of **prolonged prosperity**, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system.

A movement from Hedge->Ponzi

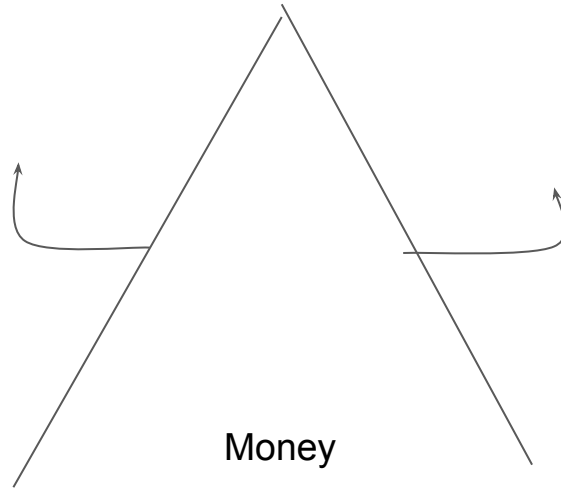
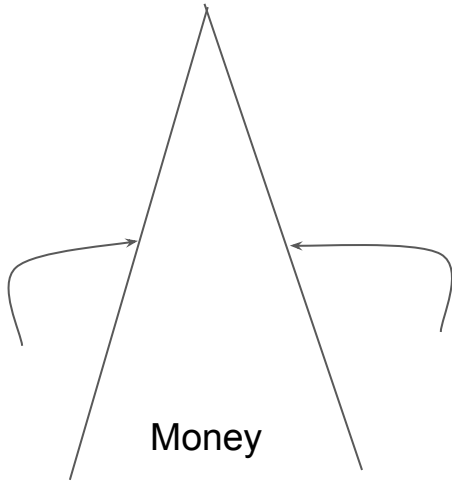
Containment measures will cause more units to move towards the Ponzi end and collapse of Ponzi units.

Minsky Moment

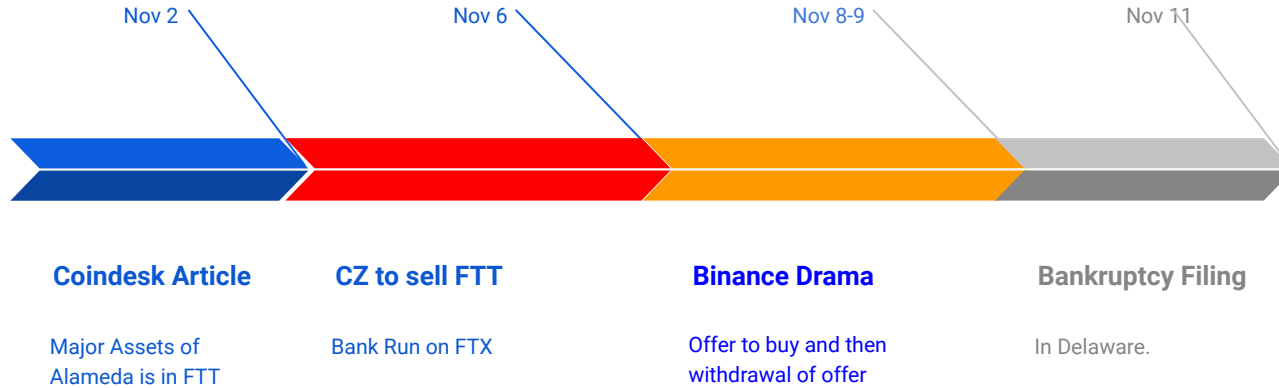
A Minsky Moment is a sudden, major collapse of asset values which marks the end of the growth phase of a cycle in credit markets or business activity.

This is a catchy phrase, but Minsky never talked about the Minsky Moment. Caused by debt-leverage. There could be a Minsky Cycle.

Discipline & Elasticity



FTX & Alameda



FTX & Alameda- The Minsky cycle

Elasticity<->Discipline

Collapse of Luna-Terra

The Fed tightens

Prices of all crypto-currencies drop

Highly leveraged Alameda Research

Whales selling (or threatening to sell)

Contagion - BlockFi, Genesis, Gemini etc.

Control of Economic Units (Regulation)

Antidotes

- Prevent and contain Instability
- Pick up the pieces and fix financial structure after a crash

Proof of Reserve

Assets - Liabilities = Proof of Solvency

How do we dynamically prove the balance sheet?