

A Minskian Approach to Financial Crisis with a Behavioural Twist¹:

A Reappraisal of the 2000-2001 Financial Crisis in Turkey

Mathieu Dufour
Economics Department
University of Massachusetts, Amherst,
MA 01003 USA
And
Dalhousie University, Halifax
(mathieu@econs.umass.edu)

Abstract

The phenomenal financial expansion of the last decades has been characterised by an exacerbation of systemic instability and an increase in the frequency of financial crises. The literature on financial crises has developed concomitantly, but despite a large number of papers written on this subject economists are still struggling to understand the underlying determinants of these phenomena. In this thesis, I argue that one of the reasons for this apparent failure is the way agents, as well as the environment in which they evolve, are modelled in this literature. I outline an alternative framework, drawing from Post-Keynesian and Behavioural insights, in which international financial crises are seen as being a direct consequence of the way agents take investment decisions as they struggle to forecast a fundamentally uncertain future. I then apply this framework to the study of the 2000-2001 financial crisis in Turkey, which is notorious for not lending itself easily to explanations based on the existing theoretical literature on international financial crises. In my view, two moments can be identified prior to the crisis: A phase of increasing financial fragility, lasting from a previous crisis in 1994 to 1999, and a financial bubble in 2000 during the implementation of an IMF stabilisation program, partly predicated on the previous increase in financial fragility. My framework can account for both periods; it fits particularly well the first one and enhances the explanatory content of existing stories about the events that took place in 2000.

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