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Are Financial Crises Endogenous Phenomena? A Theoretical Analysis

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Abstract : This article explores the deep-seated nature of financial crises by comparing major economic theories, from Marx to Minsky. It traces an intellectual evolution, from explanations based on real production imbalances to analyses centred on finance, credit, and debt.

The analysis leads to a clear conclusion: financial instability is endogenous to the system. Crises emerge from its internal mechanisms—credit expansion, speculation, and over-indebtedness, rather than from external shocks. Stability appears only as a temporary and fragile equilibrium. Understanding this internal logic is essential for interpreting modern crises and for building a more resilient financial system.

Keywords: Financial crises; Financial instability; Endogenous instability; Credit and indebtedness; Debt-deflation;

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1. Introduction

Financial crises constitute a recurrent phenomenon in the history of capitalist economies. Long regarded as exceptional disturbances or temporary accidents of the economic cycle, they are now analyzed as deep manifestations of the structural imbalances inherent in the economic and financial system. The Great Depression of 1929, followed by more recent financial crises, has highlighted the limits of self-regulating mechanisms and renewed interest in theories explaining financial crises.

Although absent from early theoretical formulations, the concept of financial stability has gradually emerged as a central notion in economic analysis. As emphasized by Mishkin (1997), financial crises represent "the most severe manifestation of financial instability, in which the financial system is abruptly disrupted and almost ceases to function." Consequently, the study of crises provides a privileged framework for understanding the mechanisms underlying financial instability.

In this context, this article aims to analyze the theoretical foundations of financial crises through a comparative approach to the main contributions of economic thought. The central research question can be formulated as follows: are financial crises inherent to the functioning of the economic and financial system? The objective is to show that, despite the diversity of analytical frameworks, there is a gradual convergence toward the idea of an endogenous instability of capitalism.

2. Conceptual and theoretical framework

Given that the notion of financial stability did not explicitly appear in early economic theories, this section focuses on approaches that analyze crises as periods of instability. As emphasized by Mishkin (1997), financial crises are considered "the most severe manifestation of financial instability, during which the financial system is abruptly paralyzed and almost ceases to function."

The issue of crises nevertheless did not occupy a central place in economic thought compared to other economic concerns. Classical and neoclassical economists did, however, propose several theories aimed at explaining economic crises, without explicitly mobilizing the concept of financial stability.

By contrast, the term "financial crises" began to gain real prominence after the 1929 crisis, through in-depth analyses such as those developed by Fisher (1933). Subsequently, the Asian financial crisis of 1997 significantly renewed interest in this concept, giving rise to numerous theoretical and empirical studies devoted to explaining episodes of financial instability.

2.1. Conceptual and theoretical framework: From the cycle to overproduction crises

For Juglar, the crisis constitutes one of the three asymmetric phases of the business cycle, alongside prosperity and liquidation. The phase of prosperity is characterized by rising prices and a decline in metallic reserves, during which the crisis remains latent. The crisis then erupts abruptly, manifested by the collapse of reserves, an increase in interest rates, and ultimately the suspension of bank credit. The liquidation phase begins when investors engage in asset sales, sometimes at a loss, leading to a wave of bankruptcies. The return to prosperity occurs once confidence is gradually restored. For Juglar (1863), crises thus represent the price to be paid for periods of prosperity.

According to Juglar (1862), crises are closely associated with economies characterized by strong commercial development. Credit expansion encourages excess expenditure relative to revenues, inevitably leading to a phase of correction. Crises are therefore neither isolated nor exceptional events, but rather part of a historical regularity, as emphasized by Besomi (2009).

Juglar also argues that crises are often preceded by periods of apparent stability. The wealth of economies contributes not only to the emergence of crises but also to their severity. In his view, all crises originate in excessive speculation and in the disorderly growth of industry and commerce.

The imbalance between expenditures and revenues, largely driven by credit expansion, eventually corrects itself, before a new phase of instability emerges.   thus highlights the cyclical nature of crises and suggests that they may, paradoxically, contribute to the temporary restoration of a certain degree of economic stability.

The main criticism addressed to Juglar lies in his emphasis on the periodicity of crises rather than on their deeper underlying causes.

Following Juglar's line of reasoning, Aftalion explains crises through the expansion of credit granted to firms, which encourages excessive rationalization of productive capacities. Crises are therefore of a productive nature and result from the time lag between production and changes in demand. When consumption deteriorates, production exceeds existing needs, leading to crises of overproduction (Aftalion, 1909).

According to Aftalion (1909), the expansion of consumption stimulates a virtuous circle of investment, which reaches its peak when consumption begins to slow down. Crises then emerge when production exceeds real needs, bringing the investment mechanism to a halt. Aftalion argues that imbalances between final demand and the demand for intermediate goods prior to consumption play a central role in the emergence of crises. Indeed, when the use value of goods declines, profits decrease, leading to a halt in production and, consequently, the onset of an economic crisis.

From a different perspective, Marx (1894) attributes the emergence of crises in capitalist economies to an imbalance between production and consumption. According to him, the fundamental source of all crises lies in the limited consumption capacity of the masses, in contrast to capitalism's tendency to continuously expand its productive forces, as if only the total consumption capacity of society could represent a limit. Marx also emphasizes that, prior to any instability, the system goes through periods of prosperity that conceal the underlying fragility of the financial structure.

This was notably the case in 1857, when experts unanimously confirmed the stability of the financial system only one month before the outbreak of the 1857 crisis.

2.2. Keynes's Insufficiency of Investment

Like Marx, Keynes considers that economic crises fundamentally result from insufficient investment rather than from an excess of savings. His analysis emerges in a context marked by deep concerns about economic crises, which he saw as drivers of socio-economic transformations potentially leading to the emergence of a radically different social model, notably socialism.

Keynes thus analyzes crises as stemming from insufficient effective demand, while departing from classical underconsumption approaches. According to him, the primary cause of economic crises lies in the decline of the marginal efficiency of capital (Stojanov, 2009). This deterioration reflects worsening investor expectations and rising uncertainty, leading to a sudden collapse in investment.

From this perspective, Keynes emphasizes that a crisis does not manifest solely through rising interest rates, although they may act as a trigger. Rather, it results primarily from the collapse of the marginal efficiency of capital, which generates a heightened preference for liquidity. This elevated liquidity preference then puts upward pressure on interest rates, further exacerbating the contraction of investment.

In Keynesian analysis, investment is closely linked to the relationship between the marginal efficiency of capital and the interest rate. Any deterioration in the marginal efficiency of capital leads to reduced investment, even in a low-interest-rate environment. Keynes also notes that this collapse can be so severe that no reduction in interest rates is sufficient to revive investment, rendering monetary policy ineffective during certain phases of a crisis.

Moreover, Keynesian theory establishes a close connection between macroeconomic imbalances and the relationship between investment and savings (Husson & Badia). Savings correspond to the portion of income not consumed, while consumption constitutes the difference between income and investment. Macroeconomic equilibrium is achieved when savings equal investment.

When investment exceeds savings, entrepreneurs' profits surpass production costs, promoting capital accumulation. Conversely, when investment falls below savings, entrepreneurs incur losses, resulting in economic disequilibrium. Thus, according to Keynes, the origin of crises lies in the disruption of the balance between investment and savings.

This analysis leads to the view that economic instability is an endogenous phenomenon within the capitalist system, primarily arising from the behaviors and decisions of financial actors.

2.3. The financial instability hypothesis of Minsky

Minsky's analysis is a direct extension of Keynes's General Theory, from which he adopts the central idea that the financial system of capitalist economies is characterized by intrinsic complexity. For Minsky, this complexity primarily stems from the structure of debt, which conditions the behavior of economic agents and the overall dynamics of the financial system.

Minsky (1992) emphasizes that financial instability is largely explained by the role of financial intermediaries and the development of financial innovations, both of which play a central role in financing the economy. These factors influence the financing strategies adopted by agents and gradually alter the robustness of the financial system.

Within this framework, Minsky (1992) proposes a typology of financial structures based on agents' capacity to meet their financial obligations. He distinguishes three main types of financing:

- Hedge finance structures refer to economic units able to cover both principal and interest on their debt from their cash flows. These units, largely financed through equity, exhibit low risk and contribute to the stability of the financial system.
- Speculative finance structures pertain to units whose income allows them to pay only the interest on debt, without repaying the principal. These entities must regularly refinance by issuing new debt to meet their obligations, increasing their financial vulnerability.
- Ponzi finance structures consist of units whose cash flows are insufficient to cover both principal and interest. These agents must either continuously increase their borrowing or sell assets to service their debt, making them highly exposed to default risk.

According to Minsky, the greater the dominance of Hedge structures in a financial system, the more stable it is likely to be. Conversely, the predominance of Speculative and Ponzi structures significantly increases the risk of financial instability. The stability or instability of the system thus depends directly on the nature of the financing structures it comprises.

Through his financial instability hypothesis, Minsky (1992) asserts that financial crises do not result from exogenous shocks but are essentially endogenous to the functioning of capitalist economies. They are explained by the internal evolution of financial behaviors, as well as by the quality of the institutional framework regarding regulation, supervision, and maintenance of financial stability.

Finally, although financial intermediaries play a stabilizing role by facilitating the financing of economic activity, Minsky highlights that their actions can also promote instability. On one hand, financial intermediation encourages rising debt among agents during periods of apparent stability; on the other hand, financial innovation multiplies instruments and investment opportunities, contributing to increased risk-taking and the gradual fragilization of the financial system.

2.4. Over-Indebtedness and debt-deflation in Fisher

According to Fisher (1988), numerous factors can interact within the economic system and contribute to the emergence of crises. However, he argues that elements such as overproduction, underconsumption, price disturbances, mismatches between industrial and agricultural prices, excessive optimism, overinvestment, excess savings, overspending, or the gap between savings and investment are insufficient on their own to explain major economic crises. While these factors may play a role in triggering episodes of instability, they are considered secondary in Fisher's analysis.

For Fisher (1988), the fundamental causes of financial crises lie in over-indebtedness and deflation, which are far more impactful than the secondary factors because they amplify their effects. He emphasizes that over-indebtedness and deflation simultaneously disrupt a broad range of economic variables, including debts, the money supply, the velocity of money, the general price level, net worth, profits, trade, economic agents' confidence, and interest rates.

When over-indebtedness is the primary source of imbalance, without any initial effect on the price level, it triggers a debt liquidation process accompanied by massive asset sales. This dynamic causes a contraction of the money supply, destabilizes prices, generates economic losses, reduces trade and production, and increases unemployment. It also contributes to interest rate instability and promotes hoarding, a direct consequence of the loss of confidence in the means of payment.

Fisher (1988) notes that crises would be less severe if over-indebtedness were not accompanied by a deflationary process. Similarly, deflation in isolation, without prior over-indebtedness, would produce less dramatic effects. However, it is precisely the combination of over-indebtedness and deflation—deflation largely induced by over-indebtedness—that forms the core explanatory mechanism of major financial instability episodes.

This analysis leads Fisher to identify over-indebtedness as the principal cause of financial instability, resulting from investors' desire to earn profits in a context he describes as one of "easy money."

2.5. Kindleberger and the historical dynamics of financial crises

From a historical and institutional perspective, Charles P. Kindleberger makes a major contribution to the analysis of financial crises. His approach builds upon the work of Hyman Minsky, adopting the central idea that financial instability is endogenous to capitalist economies. Kindleberger develops a descriptive and comparative analysis of financial crises based on the observation of numerous historical episodes, highlighting recurring patterns in their development (Kindleberger, 1978; Kindleberger & Aliber, 2005).

According to Kindleberger, financial crises generally follow a recurrent three-phase sequence: mania, panic, and crash. This dynamic forms the core explanatory framework of his historical analysis of financial instability.

The mania phase is characterized by rapid credit expansion, intensified speculation, and sustained increases in asset prices. This dynamic is fueled by overly optimistic expectations, herding behavior, and widespread market confidence. Kindleberger notes that this phase is often facilitated by financial or institutional innovations that broaden access to credit.

The mania phase is followed by a panic phase, during which agents' confidence deteriorates abruptly. Investors then seek to liquidate positions and convert assets into cash, causing massive withdrawals, forced sales, and credit contraction. This breakdown of trust is a key moment in the propagation of the crisis.

Finally, the crash phase corresponds to the collapse of asset prices, a surge in bankruptcies, and paralysis of the financial system. This phase marks the culmination of the cumulative process initiated during the mania period, when accumulated imbalances become unsustainable.

Based on his historical analysis, Kindleberger demonstrates that the absence of prompt and credible intervention by monetary authorities tends to exacerbate crises and prolong their economic effects. Conversely, the presence of institutions capable of providing liquidity during periods of panic helps contain financial contagion and restore confidence.

Kindleberger's analysis thus highlights that financial crises result from internal dynamics within the financial system and the interaction between private behavior and institutional frameworks, confirming the idea that financial instability is a structural feature of capitalist economies.

3. Methodology

This research adopts a qualitative and theoretical methodology, based on a conceptual and comparative analysis of the main economic theories explaining financial crises.

The approach is structured around three complementary axes. First, a historical analysis of crisis theories is conducted, spanning from classical and Marxist approaches to Keynesian and post-Keynesian contributions. This perspective allows for tracing the evolution of analytical frameworks and highlights how the notion of instability gradually became central in economic thought.

Second, a comparative analysis is employed to identify the core mechanisms emphasized by each theoretical school, particularly the roles of overproduction, insufficient demand, investment, credit, and indebtedness. This comparison reveals both conceptual divergences and points of convergence among the various approaches.

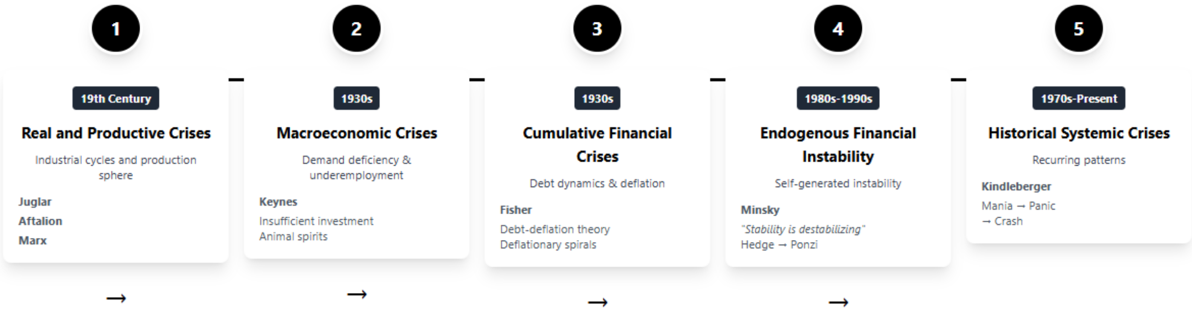
Finally, a theoretical synthesis is proposed to highlight the common findings derived from these analyses and to discuss their explanatory relevance for understanding contemporary financial crises. The absence of an empirical analysis is justified by the primary objective of the study, which is to clarify the theoretical foundations of financial instability rather than to test a specific model.

4. Results and discussion

4.1. Historical analysis of theories

Figure 1 illustrates the evolution of financial crisis theories, from approaches focused on real and productive imbalances to analyses emphasizing endogenous financial instability. Early theories explain crises through industrial cycles and overproduction, whereas Keynesian and post-Keynesian approaches highlight the central role of investment, credit, and indebtedness.

The work of Fisher, Minsky, and Kindleberger demonstrates that crises result from cumulative internal dynamics within the financial system, reinforced by speculative behavior and the inadequacy of institutional mechanisms. This evolution confirms that financial crises are recurrent and structural, rather than mere temporary disruptions of economic activity.



Source: Prepared by the author.

Figure 1 – Evolution of Financial Crisis Theories

4.2. Comparative analysis

The table highlights a gradual evolution in the explanations of financial crises, from approaches based on real and productive imbalances to analyses emphasizing financial and endogenous factors. The main divergences between theories concern the dominant nature of the crisis and the initial triggering mechanism, while a clear convergence emerges regarding the central role of credit and indebtedness as amplifiers of imbalances. More recent approaches (Fisher, Minsky, Kindleberger) thus confirm that crises arise from internal dynamics within the economic and financial system, rather than from purely exogenous shocks.

Table 1 – Comparative Reading of Financial Crisis Theories

Author	Dominant Nature of the Crisis	Central Mechanism	Role of Credit / Indebtedness	Type of Instability	View of the Crisis
Juglar	Real and monetary	Prosperity–crisis–liquidation cycle	Excessive credit expansion	Cyclical	Recurrent, almost natural phenomenon
Aftalion	Productive	Production–demand mismatch	Credit promoting overproduction	Structural	Overproduction crisis
Marx	Structural	Production–consumption contradiction	Credit as an amplifier	Endogenous to capitalism	Systemic crisis
Keynes	Macroeconomic	Investment collapse	Liquidity preference	Endogenous	Effective demand crisis
Fisher	Financial	Over-indebtedness + deflation	Central (debt-deflation)	Cumulative	Self-sustaining crisis
Minsky	Financial	Weakening of financing structures	Central (Hedge / Speculative / Ponzi)	Endogenous	Inherent instability
Kindleberger	Financial and institutional	Mania – Panic – Crash	Credit expansion followed by contraction	Historical and cumulative	Systemic crisis

Source: Prepared by the author.

4.3. Cumulative Theoretical Results

The cumulative results confirm a strong theoretical convergence around the idea that financial crises are not accidental. Credit, investment, and over-indebtedness emerge as central mechanisms generating instability, making stability fundamentally temporary. All approaches thus emphasize the endogenous and systemic nature of crises, while highlighting the decisive role of institutions in the magnitude and propagation of episodes of instability.

Table 2 – Cumulative Theoretical Results on Financial Crises

Theoretical Result	Theories Concerned	Major Implication
Crises are recurrent	Juglar, Kindleberger	They are not accidental
Credit amplifies imbalances	Juglar, Aftalion, Fisher	The financial system plays a central role
Investment is inherently unstable	Keynes, Minsky	Stability is temporary
Over-indebtedness is a key factor	Fisher, Minsky	Increased systemic risk
Crises are endogenous	Marx, Keynes, Minsky, Kindleberger	Capitalism is structurally unstable
Institutions influence crisis severity	Kindleberger	Importance of the lender of last resort

Source: Prepared by the author.

5. Conclusion

The comparative analysis of the main economic theories of financial crises shows that these crises do not stem from exceptional shocks, but rather constitute a recurrent and structural feature of capitalist economies. From classical and Marxist approaches to Keynesian and post-Keynesian contributions, a progressive convergence emerges around the idea of endogenous instability, linked to the internal dynamics of investment, credit, and indebtedness.

The work of Fisher, Minsky, and Kindleberger particularly highlights the central role of the financial system in the genesis and propagation of crises, through cumulative mechanisms of over-indebtedness, the weakening of financing structures, and speculative behavior. These analyses also underscore the importance of the institutional framework and the role of monetary authorities in limiting the severity of crises.

Thus, financial stability appears as a fragile and temporary equilibrium rather than a durable state. Understanding financial crises therefore requires an integrated theoretical approach that accounts simultaneously for real, financial, and institutional imbalances.

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