# Editorial

*Journal of Asset Management* (2008) **8,** 351. doi:10.1057/palgrave.jam.2250092

August 2007 has been a tremendous boon to editors of finance journals as new information on the events emerge and new theories gain and then lose eminence. However, the academic quantitative papers that have appeared have not shown especially deep insights; neither have the rather defensive pieces written by Quant model providers, explaining away the total model failure involved. A deafening silence surrounds the rating agencies… where shall we turn to for insight?

Surprisingly, I have found succour from a surprising source, radical heterodox economists. In fact, it is not that surprising; radical economists pronounce on extreme events rather than standard events and they are, perhaps, better equipped to pronounce on melt-downs than the joys of efficient markets. One particular scholar, Hyman Minsky (1919–1995), stands out in this area. His work has become influential in understanding the nature of financial crises, especially where the aspect of interest is to do with failures in the credit market; a failure we recently experienced.

It is not possible to give much detail in an editorial; I shall just highlight two aspects of his theory, culled from an excellent article by C.J. Whalen (2007). The first aspect is concerned with the endogeneity of the melt-down. As I understand it, Minsky provides a mechanism describing evolutionary market dynamics that lead to financial instability. This is in contrast to the neo-classical structure that treats the trigger of such episodes as exogenous. The implication is that the former leads to a forecasting structure more readily than the latter….

The second aspect that is appealing to me is the familiar distinction between risk and uncertainty. In times of calm, probabilities have some meaning, and risk models work adequately; in times of crisis, conventional structures break down, the set of events changes, risk is replaced by uncertainty and our risk models fail. Both these ideas have a number of important implications for everybody involved in the financial sector.

*Stephen E. Satchell*
Editor

#### References

Whalen, C. J. (2007) 'The U.S. Credit Crunch of 2007: A Minsky Moment', Public Policy Brief 92, The Levy Economics Institute of Bard College, New York.