

Artificial Stability and the Return of Systemic Fragility: A Management, Financial and Accounting Perspective from the 2008 Crisis to the Post-COVID Global Economy

Dr. NOUI Fethi

PhD – Management of SME

Faculty of Economic, Commercial and Management Sciences – University of Algiers 3

fethi.noui.dz@gmail.com

Dr. BOUMEDIENE Nabila

PhD – Accounting Specialization

Faculty of Economic, Commercial and Management Sciences – University of Algiers 3

nabilaboumedien93@gmail.com

Dr. REKIK Isma

PhD – Management of SME

Department of finance– Higher school of commerce (ESC) Kolea

i_rekik@esc-alger.dz

Dr. FEKKAK Bouazza

USTHB / Algiers (Algeria);

bfekkek@usthb.dz

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Abstract

For more than a decade following the 2008 global financial crisis, the world economy has experienced an unusually prolonged period of apparent stability, characterized by low unemployment, sustained economic growth, and record-high financial markets. Classical indicators suggest that an inverted yield curve should have already signaled a recession, yet no conventional downturn has occurred. This article examines the structural reasons behind this anomaly through Hyman Minsky's Financial Instability Hypothesis, the legacy of the 2008 crisis, the unprecedented post-COVID monetary and fiscal expansion, and the proliferation of zombie firms, high debt levels, and asset bubbles. We argue that the current stability is artificial and fragile, and that delaying the necessary adjustment will likely lead to a more severe and disruptive eventual correction. Understanding these dynamics is critical for anticipating future systemic risks.

Keywords: Yield Curve Inversion; Financial Instability Hypothesis; Zombie Firms; Monetary Policy; Fiscal Policy; Public Debt; Asset Bubbles; Systemic Risk; Quantitative Easing.

JEL Codes: E43; E12; B26; G33; E52; E62; H63; G12; G01; E58.

1. Introduction

Economic history consistently demonstrates that capitalism evolves through recurrent cycles of expansion, financial excess, correction, and crisis. Recessions, although socially and politically painful, have traditionally played a fundamental economic role by eliminating inefficient firms, reducing excess leverage, repricing risk, and restoring market discipline, effectively functioning as structural “reset mechanisms” within capitalist systems (Estrella, A., & Mishkin, F. S, 1996, p. 7). However, since the Global Financial Crisis of 2008, governments and central banks have increasingly sought to prevent recessions at all costs through unprecedented monetary and fiscal interventions (Estrella, 1991, p. 575).

One of the most reliable early warning indicators of economic downturns is the yield curve, representing the relationship between short-term and long-term interest rates on government bonds. Under normal conditions, long-term rates are higher than short-term rates, reflecting inflation expectations and risk premia. A yield-curve inversion occurs when short-term interest rates exceed long-term rates, signaling that financial markets expect future weakness (Erdogan, 2014, p. 421). Historically, such inversions have preceded nearly all major recessions in advanced economies. In particular, we find that a monetary policy easing, reflected in either a lower current real-interest rate level or a decline in the expected real-rate spread, is associated with an increase in the probability of a recession within the next year (Luca Benzoni, 2018, p. 4).

Yet, unlike previous historical episodes, the recent inversion has not been followed by an immediate recession. Instead, global economic activity has persisted in a state of relative stability, supported by expansive fiscal policies, prolonged ultra-low interest rates, large-scale asset purchases by central banks, and extraordinary public debt accumulation. This divergence between classical macro-financial warning signals and observed economic stability constitutes a major modern economic paradox (Ninomiya, 2022, p. 23).

This paradox was anticipated by American economist Hyman P. Minsky through his Financial Instability Hypothesis (FIH). Minsky argued that financial stability itself is destabilizing: prolonged calm encourages excessive risk-taking, rising leverage, and speculative financial structures that inevitably generate systemic fragility (Nabeshima, 2015, p. 17). Although his warnings were largely ignored by mainstream economics during much of the late twentieth century, his ideas resurfaced forcefully during the 2008 crisis, and the concept of the “Minsky moment” has since become central to crisis interpretation (King.J, 2013, p. 13).

The period from 2009 to 2025 may thus represent the longest phase of artificial stability in modern economic history—stability not generated by organic productivity growth but by sustained public intervention in financial markets. Asset bubbles, rising public and private indebtedness, the proliferation of “zombie firms,” and increasing financial repression now characterize the global economic landscape (Kirchner.M, 2016, p. 67).

This article examines whether the current absence of recession following the yield-curve inversion reflects a genuine transformation of macroeconomic dynamics or represents the delayed manifestation of deeper systemic instability in the strict sense described by Minsky. By combining historical evidence, monetary indicators, and financial-cycle theory, this study assesses whether today’s apparent stability is in fact the prelude to a future global correction of

unprecedented magnitude.

Sub-questions:

Stemming from this central problem are sub-questions that aid in the analysis of this study:

1. Have contemporary economic transformations weakened the predictive power of a yield curve inversion as a leading indicator of economic recession?
2. Did unconventional monetary and fiscal policies following the 2008 crisis and the COVID-19 pandemic contribute to prolonging the artificial stability that began to take shape in 2008?
3. How does the Hyman Minsky's hypothesis explain the accumulation of financial fragility amidst the apparent continued stability of the global economy?
4. Do the accumulation of "zombie companies," asset bubbles, and financial dominance over central banks constitute sufficient indicators to judge that the current stability is fragile in the sense defined by Hyman Minsky's?

Study hypotheses:

This study proceeds from a central hypothesis:

The absence of an economic recession following the 2008 crisis and the COVID-19 pandemic—despite the inversion of the yield curve—does not necessarily reflect the resilience of the global economy; rather, it represents a state of artificial stability resulting from extraordinary monetary and fiscal interventions that postponed the correction without eliminating its underlying causes—a scenario consistent with Hyman Minsky's financial instability Hypothesis.

Sub-hypotheses branch out from this main hypothesis:

The first hypothesis: Contemporary economic and financial shifts have impacted the predictive power of a yield curve inversion regarding economic recession.

The second hypothesis: Unconventional monetary and fiscal policies implemented after the 2008 crisis and the COVID-19 pandemic contributed to delaying the onset of economic recession.

The third hypothesis: The continuation of expansionary policies led to an accumulation of financial fragility, consistent with Hyman Minsky's financial instability hypothesis.

The fourth hypothesis: The proliferation of "zombie companies" and rising debt levels have contributed to deepening financial fragility and heightening systemic risks to the global economy.

Study Objectives:

- To analyze the persistence of the yield curve inversion's predictive power regarding economic recession in light of contemporary economic and financial shifts.
- To examine the impact of unconventional monetary and fiscal policies—implemented following the 2008 crisis and the COVID-19 pandemic—on delaying the onset of economic recession.
- To explain the phenomenon of the absence of recession in light of Hyman Minsky's financial instability hypothesis, and outlining its relationship to the accumulation of financial fragility.
- To analyze the role of zombie companies and rising debt levels in deepening financial fragility and heightening systemic risks.

- To assess the implications of continued apparent economic stability, and assessing whether it signals the resilience of the global economy or represents an artificial stability that could lead to future crises.

Study Methodology:

This study adopts a descriptive-analytical approach, as it is the most appropriate method for addressing the research problem. It relies on the analysis of relevant economic literature, previous studies, and reports issued by international economic and financial institutions concerning yield curve inversion and the absence of economic recession. In addition, the study employs the comparative method to examine economic developments before and after the 2008 global financial crisis and the COVID-19 pandemic. It also uses a deductive approach to explain the relationship between yield curve inversion, unconventional monetary and fiscal policies, and financial fragility within the framework of Hyman Minsky's Financial Instability Hypothesis. This methodological approach provides a comprehensive explanation of the phenomenon under investigation and is consistent with the study's objectives and research problem.

Previous Studies:

Recent economic literature has shown growing interest in explaining the continued absence of economic recession despite the inversion of the yield curve. Previous studies have examined this phenomenon from various angles, most notably the yield curve, unconventional monetary policies, the financial instability hypothesis, and "zombie firms." The following is an overview of the most significant of these studies:

The First Study:

The study by Hasse and Lajaunie (2022), titled "Does the Yield Curve Signal Recessions? New Evidence from an International Panel Data Analysis," examined the enduring ability of the yield curve to predict economic recessions using data from a group of OECD countries, aiming to assess the indicator's accuracy amidst varying economic conditions across nations. The study concluded that while the yield curve retains its value as a forward-looking indicator of recession, its accuracy varies depending on each country's economic characteristics and monetary framework; this suggests that relying on it in isolation is insufficient and that it should be combined with other economic indicators.

Commentary:

The panel design is a strength here, but the study does not really ask why accuracy varies across countries — it reports the variation without tying it to differences in monetary policy stance or debt levels, which is where this article picks up.

The Second study:

The study by de Paula and Saraiva (2023), entitled "Coronavirus Pandemic and the Resumption of Unconventional Monetary Policies in the US: Some Considerations in Light of the 2007–08 Financial Crisis," highlighted the return of the US Federal Reserve to adopting unconventional monetary policies during the COVID-19 pandemic, and compared them to the measures taken after the 2008 global financial crisis.

The findings concluded that expanding asset purchase programs, lowering interest rates, and providing liquidity to financial markets helped support economic activity and curb the

escalation of the crisis; however, maintaining these policies for extended periods could lead to a buildup of debt and increased financial fragility.

Commentary:

. Useful background on the policy side, though it is a US-only study and does not touch the yield curve at all. It is cited here mainly for the debt-buildup warning in its conclusion, which lines up with the argument developed later in this article.

The Third Study:

A study by Abbritti et al. (2024), titled "Downturns and Changes in the Yield Slope," examined the yield curve's predictive power regarding recessions. Rather than relying solely on yield curve inversion as a standalone indicator, the study analyzed the impact of changes in the curve's slope. Using US economic data and econometric models to assess the relationship between yield curve dynamics and economic fluctuations, the researchers found that changes in the slope provide predictive information about recessions and that the "term premium" plays a role in explaining this relationship—indicating that the yield curve alone is insufficient for forecasting the trajectory of economic active

Commentary:

Of the five studies, this one comes closest to what we argue below — the term-premium result is basically a market-pricing explanation for why inversions can go quiet without being wrong. The study does not go on to ask what compresses the term premium in the first place; central bank balance-sheet policy is an obvious candidate it leaves unexamined.

The Fourth Study:

The study by Chatterjee et al. (2024), titled "Reassessing the Inversion of the Treasury Yield Curve as a Sign of U.S. Recessions: Insights from the Housing and Credit Markets," aimed to re-evaluate the ability of the U.S. Treasury yield curve inversion to predict economic recessions. Through an econometric analysis integrating the yield curve with housing and credit market indicators, the study concluded that while the inversion remains a significant indicator, its predictive accuracy diminishes when used in isolation; Conversely, combining it with housing and credit indicators enhances the accuracy of recession forecasting.

Commentary:

Similar limitation to the first study: adding housing and credit variables improves the forecast, but the paper does not ask why the plain-vanilla yield curve stopped working as well as it used to.

Research Gap:

None of these four studies puts the three pieces together — unconventional monetary and fiscal policy, Minsky's hypothesis, and the zombie-firm literature — as a joint explanation for why the 2022 inversion has not (yet) produced a recession. Each treats the weakening of the yield-curve signal as a forecasting problem to be corrected with better indicators or model specification, rather than asking what changed in the policy environment after 2008. That is the gap this article addresses.

2. The 2008 Financial Crisis: A Structural Turning Point

The 2008 crisis was not a standard recession driven by a temporary decline in demand or business-cycle adjustment, but a systemic financial collapse rooted in deep structural

imbalances within the global financial architecture, and the interest rates on U.S Federal Government treasury bills for 3 and 6 months maturity and long-term government bonds with maturities 2,3,5,7 and 10 years (Papadimitriou, 2015, p. 643). It was triggered by excessive leverage, progressive financial deregulation, mass securitization of subprime mortgages, and the widespread illusion that financial engineering could indefinitely disperse and neutralize risk across markets. The model proposed can be employed for the efficient and prompt implantation of the fiscal and monetary policy mix in aiming to minimize deviation of real output from the long-term trend (Papadimitriou, 2015, p. 644).

When Lehman Brothers collapsed in September 2008, interbank trust vanished abruptly, global liquidity froze, and credit markets seized up, bringing modern economic transmission mechanisms to the brink of paralysis. For the first time since the Great Depression, the continuity of the global financial system was openly threatened, revealing the extreme fragility created by decades of credit-driven financial expansion.

In response, central banks and governments deployed unprecedented emergency measures: near-zero interest rates, large-scale Quantitative Easing (QE), massive bailouts of systemically important banks, and explosive fiscal deficits aimed at stabilizing collapsing private balance sheets. These policies successfully prevented total systemic collapse and a complete breakdown of the payments system, but they also fundamentally altered the structural logic of capitalism using the yield curve model (Estrella, 1991, p. 5).

For the first time in modern economic history, major advanced economies entered an unprecedented monetary and fiscal regime in the aftermath of the 2008 crisis. Interest rates remained at historically low levels for an extended period, significantly altering market-based pricing of risk and shaping capital allocation decisions across the economy. Central banks progressively expanded their role in financial markets by intervening directly or indirectly to support sovereign debt markets, corporate bond issuance, and, implicitly, equity valuations. In parallel, governments accumulated substantial fiscal deficits and historically high levels of public debt, increasingly underpinned by the implicit expectation of continued monetary accommodation, weakening market discipline and marking a structural departure from pre-crisis macroeconomic dynamics (King.J, 2013, p. 229).

This marked a decisive transition from cyclical capitalism, in which periodic crises correct excesses through market mechanisms, to a regime of interventionist financial capitalism, in which economic stability increasingly depends on continuous public and monetary support rather than autonomous market self-regulation (Kirchner.M, 2016, p. 45).

3. The Yield Curve Signal and the “Non-Recession” of 2023–2025

Despite strong historical precedent, the expected recession of 2023–2025 did not materialize. Economic growth remained positive, unemployment rates stayed low, and financial markets continued to reach new highs. This divergence from historical patterns raises questions about structural changes in the post-2008 and post-COVID economy, including extraordinary monetary and fiscal interventions, high levels of private and public debt, and the emergence of zombie firms sustained by cheap credit. The persistence of this “non-recession” period suggests that traditional recessionary signals may be temporarily suppressed, creating fragile stability that could amplify the severity of any future correction, the yield curve spread can have a

useful role in macroeconomic prediction, particularly with longer lead times. Policymakers value longer term forecast because policy actions typically take effect on the economy with long time lags (Estrella A.&, 1996, p. 5).

3.1. The Historical Reliability of the Yield Curve

Since 1968, every inversion of the U.S. yield curve—when short-term interest rates exceed long-term rates—has been followed by a recession within 6 to 18 months. The indicator has shown near-perfect predictive accuracy as shown in Figure.1 (National Bureau of Economic Research & Game of Trades , 2023, p. 5).

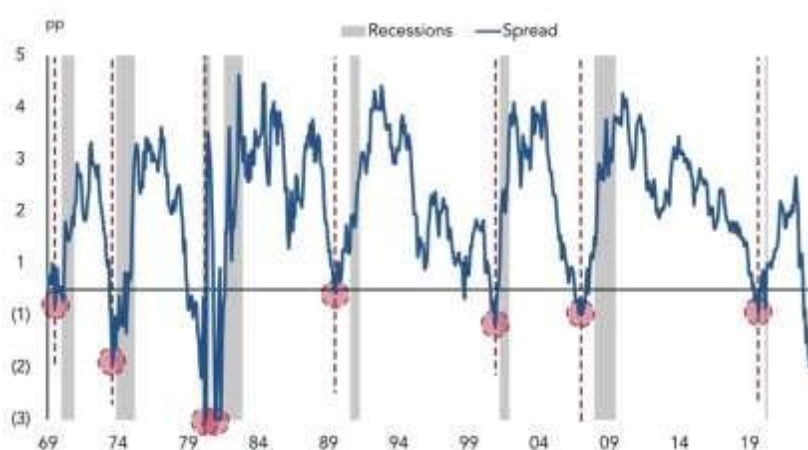


Figure.1. Recession Probabilities 12 months ahead

Recession probabilities based on the U.S. Treasury yield curve, showing historically accurate predictions of economic downturns (National Bureau of Economic Research&Game of Trades , 2023, p. 5).

In 2022, the yield curve inverted more deeply and for a longer period than at any time in modern history. According to historical logic, a recession would have been expected by 2024 at the latest.

3.2. Explaining the Absence of a Recession in 2023–2025

Three interrelated mechanisms explain why the recession predicted by traditional macroeconomic indicators—particularly following the inversion of the yield curve—did not materialize within the expected timeframe.

(a) Unprecedented Policy Intervention

Following the Global Financial Crisis, governments implemented sizeable discretionary fiscal stimulus measures to support aggregate demand and facilitate private-sector deleveraging. Subsequently, the COVID-19 pandemic prompted another substantial fiscal expansion aimed at protecting employment and preserving the purchasing power of households and firms. These exceptional interventions played an important role in cushioning the economic effects of successive shocks, while also contributing to the significant increase in public debt levels. (Bank for International Settlements [BIS], 2026, p. 42)

(b) Extended Time Lag of Policy Transmission

Monetary policy does not affect the real economy immediately, as its transmission is characterized by long and variable lags. Based on a meta-analysis of 67 published studies, Havránek and Rusnák (2013) estimate the average transmission lag at approximately 29 months. Their findings further indicate substantial differences across economies, with longer transmission lags observed in developed economies. Such delays imply that the full contractionary effects of monetary tightening may take considerable time to materialize, which can help explain why restrictive monetary policies do not necessarily lead to an immediate economic downturn. (Havránek&Rusnák, 2013, p. 39)

(c) Debt Substitution Mechanism

Excessive private-sector borrowing can create significant vulnerabilities within the financial system and increase the likelihood of financial distress. When private indebtedness becomes unsustainable, financial difficulties in the private sector may generate broader macroeconomic and financial consequences, increasing pressure on governments to intervene. Such interventions, including fiscal support and bailout measures, can lead to a transfer of financial risks from private balance sheets to the public sector. As governments assume part of the costs associated with financial distress and support measures, public borrowing may increase, contributing to the accumulation of sovereign debt. Consequently, risks that initially emerge from excessive private-sector indebtedness may gradually be transferred to the public balance sheet, creating stronger links between private debt, public debt and sovereign risk. This mechanism illustrates how efforts to stabilise the economy and contain financial crises may temporarily reduce private-sector vulnerabilities while simultaneously increasing fiscal pressures and potential sovereign risks (Arce, 2024).

4. The Role of COVID-19 in Extending Artificial Stability

Although COVID-19 was primarily a global health crisis, it also acted as a macroeconomic shock of unprecedented scale, whose financial response significantly delayed the recessionary adjustment already forming after 2008. Rather than allowing the economic contraction to unfold naturally, governments and central banks responded with the most massive liquidity injections in modern monetary history. Between 2020 and 2022, central banks created and injected trillions of dollars into the financial system, governments financed lockdowns, emergency programs, and income-support mechanisms almost entirely through debt, and financial markets were stabilized by large-scale purchases of sovereign and corporate securities. These interventions did not eliminate the underlying structural fragility but postponed the recession by artificially sustaining demand, supporting asset prices, and maintaining corporate solvency. This response produced three structural consequences:

(a) Suspension of the Cleansing Role of Recessions

During economic downturns, recessions may normally contribute to a process of reallocation in which resources gradually move away from less productive firms towards more productive ones. However, the COVID-19 crisis differed from conventional recessions because the extensive government support provided to firms helped limit business failures and preserve employment. Evidence from the COVID-19 recession shows that, although more productive firms were generally more successful in maintaining employment, there was no corresponding

increase in the exit of less productive firms. Government support policies therefore appear to have mitigated the usual cleansing effect of recessions by allowing financially vulnerable and less productive firms to remain active during the downturn. While these measures helped prevent an immediate wave of business closures and employment losses, they may also have temporarily slowed the market-based reallocation and adjustment processes that normally accompany economic contractions (Kozeniauskas et al, 2022)

(b) Explosion of Global Debt

The COVID-19 pandemic led to a significant increase in global indebtedness, particularly as governments were compelled to expand public expenditure and borrowing to mitigate the economic consequences of the crisis. The scale of the shock required extensive fiscal intervention to support households, businesses, and employment, contributing to a substantial rise in government debt. At the same time, the economic disruption associated with the pandemic increased financial pressures on the private sector and reinforced the importance of debt as a mechanism for sustaining economic activity. Consequently, the COVID-19 crisis intensified existing debt vulnerabilities and contributed to a further expansion of global indebtedness, increasing the financial challenges facing economies in the post-pandemic period (Srivastava et al, 2020, p. 2102)

(c) Postponement of the Post-2008 Structural Adjustment

The policy response to the COVID-19 crisis may also have postponed, rather than fully resolved, some of the structural adjustments that remained after previous economic crises. Governments adopted exceptional measures to prevent widespread corporate failures and keep firms outside formal insolvency procedures. While these interventions helped preserve economic activity and limit immediate business closures, they did not necessarily eliminate the underlying indebtedness and financial weaknesses of affected firms. In some cases, emergency support and temporary insolvency measures appear to have deferred necessary restructuring and adjustment processes rather than permanently preventing financial distress. Consequently, the pandemic response may have extended the survival of existing vulnerabilities and postponed part of the structural adjustment required to address accumulated debt and corporate fragilities (Menezes&Lawless, 2023, p. 376).

5. Structural Reasons behind the Absence of an Immediate Inflationary (Despite Historical Precedent)

Historically, aggressive monetary expansion has rapidly generated high inflation, currency depreciation, and financial instability. After the COVID-19 shock, global inflation indeed surged to levels unseen in approximately forty years. Yet, contrary to historical patterns, no immediate systemic financial collapse occurred. This apparent anomaly can be explained by three structural factors.

(a) Asset Inflation versus Consumer Inflation

Monetary expansion does not necessarily generate an immediate and uniform increase in consumer prices because different categories of prices respond to monetary shocks at different speeds. Asset prices, particularly financial asset prices, are generally more flexible and can absorb monetary shocks relatively quickly, whereas consumer prices tend to be more rigid and adjust gradually. Empirical evidence shows that share prices may respond to monetary shocks

within a relatively short period, while the full adjustment of consumer prices can take many years. Consequently, a prolonged period of accommodative monetary conditions may initially be reflected in rising financial asset prices rather than in a comparable increase in consumer-price inflation. This divergence between asset inflation and consumer inflation can therefore conceal underlying monetary pressures when inflation is assessed primarily through consumer price indices (Andersson, 2011, p. 760)

(b) Temporary Shock Absorption by Globalized Supply Chains

For several decades, globalized supply chains and increased international competition contributed to moderating inflationary pressures by providing firms with greater flexibility in sourcing inputs and organizing production. The expansion of trade and the growing integration of supply chains enabled firms to substitute between domestic and imported intermediate inputs, thereby reducing the impact of isolated cost shocks on overall production costs. Foreign competition also limited firms' ability to transfer domestic cost increases directly to consumers, contributing to a relatively subdued inflation environment. However, the COVID-19 pandemic disrupted these interconnected supply networks and weakened firms' capacity to substitute between alternative sources of production inputs. As supply-chain disruptions affected imported inputs and foreign competitors simultaneously, the mechanisms that had previously helped absorb cost shocks became less effective, allowing cost pressures to pass through more strongly into consumer prices (Amiti et al., 2024, pp. 71–72)

(c) State-Controlled Inflation Tolerance

Periods of elevated inflation may affect the real value of public debt, particularly when debt is denominated in nominal terms. Higher-than-expected inflation can reduce the real burden of outstanding debt by lowering the purchasing power of future nominal repayments. However, the extent of this effect depends on several factors, including the maturity structure of public debt and the persistence and magnitude of inflation. Empirical evidence suggests that inflation alone is not necessarily sufficient to produce a substantial reduction in the fiscal burden, especially when debt is concentrated at relatively short maturities. Therefore, the relationship between inflation and public debt should be understood as part of a broader interaction between inflation dynamics, debt management, and fiscal and monetary conditions rather than as an automatic mechanism for reducing debt (Hilscher et al, 2022, p. 1553).

6. The Hidden Costs of Artificial Stability

6.1. Zombie Firms

A growing number of financially weak firms may remain active even when their profitability is insufficient to support their long-term viability. Rather than restructuring successfully or leaving the market, some of these firms continue operating with the help of repeated refinancing and other forms of financial support. Their continued presence can weaken the normal process of market selection by keeping capital and other resources tied to less productive activities. It can also make it more difficult for healthier and more productive firms to expand, since zombie firms continue to compete for financing, labour, and market opportunities. Over time, this situation may reduce investment and productivity growth by slowing down the reallocation of resources toward more efficient firms and projects (Carreira et al, 2022, p. 492).

6.2. Asset Bubble

Asset price bubbles can develop through a positive feedback mechanism in which rising asset prices and improving access to credit reinforce each other. Higher asset values may relax borrowing constraints and encourage additional investment, which can further support asset prices. Although this process may initially stimulate investment and economic activity, it can also create financial vulnerabilities. When the bubble collapses, the reversal in asset prices can trigger a sharp decline in investment and contribute to a stock market crash and an economic recession (Miao&Wang, 2018, p. 2590).

6.3. Fiscal Dominance and Central Bank Dependence

High levels of public debt can gradually increase the interaction between fiscal and monetary policy. When governments face rising debt-servicing costs, central banks may come under pressure to consider the fiscal consequences of their policy decisions, particularly when higher interest rates make public borrowing more expensive. Under fiscal dominance, monetary policy may therefore become constrained by the need to preserve debt sustainability, limiting the central bank's ability to focus exclusively on inflation and macroeconomic stability. In such circumstances, pressure to maintain lower interest rates or accommodate fiscal conditions can weaken the practical independence of the central bank. This creates a closer dependence between fiscal needs and monetary decisions and may increase the risk that monetary policy objectives become influenced by government financing pressures (Bajaro et al, 2025, p. 1).

6.4. Social and Political Consequences

The economic vulnerabilities that build up during prolonged periods of apparent stability can eventually produce consequences that extend beyond financial markets. When financial crises occur, the economic losses associated with unemployment, declining incomes, and financial distress may weaken public confidence in governments and existing economic institutions. Historical evidence shows that financial crises are often followed by greater political polarization, increased uncertainty, and a more fragmented political environment. In such circumstances, voters may become more attracted to parties and political movements that offer radical alternatives to existing policies. These political changes can also make economic adjustment more difficult, as increased fragmentation and weaker governments may reduce the capacity to implement major reforms. Therefore, the costs of financial instability may extend into the social and political sphere, affecting not only economic performance but also the stability and functioning of political institutions (Funke et al, 2016, pp. 227–228).

7. The Minsky Interpretation: Why Stability Is Inherently Unstable

Minsky's financial instability hypothesis suggests that economic stability does not necessarily eliminate financial risk. On the contrary, long periods of stability can gradually encourage firms and investors to take on greater levels of debt. At first, borrowers are generally able to meet both interest and principal payments from their expected revenues. As confidence increases, however, some may begin to rely more heavily on refinancing to maintain their financial positions. Over time, this can lead to increasingly fragile forms of financing, particularly when borrowers depend on new debt or rising asset prices to meet their existing obligations. Once the financial system becomes highly dependent on these conditions, even a relatively small change in interest rates, expectations, or access to credit may trigger a broader adjustment. In this

sense, the longer stability persists, the greater the possibility that financial vulnerabilities accumulate beneath the surface (Tori et al, 2023, p. 578).

8. Personal Analytical Perspective

The central argument of this analysis is that economic recessions cannot be permanently eliminated through policy intervention. Economic systems are inherently cyclical, and prolonged periods of stability may gradually encourage greater optimism and risk-taking among economic agents. As confidence increases, investors may take on more leverage and shift toward riskier investments. This can create financial vulnerabilities that remain hidden during periods of prosperity but become more severe when economic conditions deteriorate. Therefore, policies that prevent or delay economic downturns may provide temporary stability without necessarily eliminating the underlying sources of financial fragility. From this perspective, the absence of a recession should not automatically be interpreted as evidence of a stronger and more resilient economic system (Bhattacharya et al., 2015, p. 931).

The experience of recent crises suggests that policy intervention can reduce immediate economic damage without necessarily removing the underlying sources of financial weakness. Support measures may give distressed firms additional time and help prevent abrupt failures during periods of severe disruption. However, when temporary assistance becomes a substitute for restructuring, financial problems may remain unresolved for longer. This can allow highly indebted or persistently unprofitable firms to continue operating even when their underlying financial position remains fragile. In this sense, the challenge is not intervention itself, but ensuring that crisis support does not permanently replace the process of restructuring and adjustment needed to restore long-term economic viability (Antill, 2025, p. 875).

9. Conclusion

The present phase of global economic stability cannot be interpreted as evidence of structural health or long-term resilience. On the contrary, it primarily reflects the outcome of unprecedented monetary and fiscal interventions, first deployed in response to the 2008 global financial crisis and later massively amplified during the COVID-19 pandemic. For more than fifteen years, advanced economies have operated under conditions of artificially suppressed interest rates, massive central bank balance sheets, permanent fiscal deficits, and repeated emergency liquidity programs. While these measures succeeded in preventing short-term collapses, they also profoundly altered the functioning of market discipline and risk perception. The persistent absence of recession after the inversion of the yield curve does not refute historical macroeconomic relationships; rather, it confirms Minsky's central insight that prolonged periods of stability systematically generate the conditions for deeper future instability.

The expansion of zombie firms, the inflation of equity and real-estate bubbles, the accumulation of unsustainable public and private debt, the erosion of central bank independence through fiscal dominance, and the growing polarization of wealth and political power are not incidental distortions. They constitute the structural consequences of long-term recession avoidance policies. In this sense, today's global economy is not experiencing genuine stability; it is experiencing compressed volatility, where shocks that would normally occur gradually through business cycles are continuously postponed and forced to accumulate within the financial and

fiscal architecture of the system.

The critical question is no longer whether a new phase of instability will emerge, but how and under what configuration it will unfold. Whether the next crisis materializes in 2026 or several years later is of secondary importance. What is decisive is that each additional year of postponed adjustment increases leverage, fragility of balance sheets, and the social costs of the eventual correction. The defining uncertainty of the coming decade will not lie solely in inflation, interest rates, or growth forecasts; it will hinge on the ability—or failure—of economic institutions to manage a transition back toward a system in which risk is properly priced, debt expansion is once again constrained by income and productivity, and recessions, while socially painful, are no longer systemically feared as existential threats.

For countries, especially those in the developing world, this analysis carries a practical warning. To mitigate the impact of an imminent economic shock, policymakers should prioritize the accumulation of foreign exchange reserves, ensure energy security and accelerate the transition toward sustainable energy sources, maintain strategic control over critical exports, and reinforce food security. Strengthening financial buffers, diversifying trade partners, and investing in resilient infrastructure are crucial to reduce vulnerability to systemic shocks. By taking such measures, nations can preserve economic sovereignty and maintain stability, even in the face of global turbulence.

Ultimately, the central question is whether societies will be institutionally, socially, and politically prepared to absorb the next systemic shock without experiencing catastrophic disruption. This article serves as both an analysis and a warning: postponing inevitable adjustments may temporarily suppress volatility, but it increases the severity of future crises, particularly for nations with limited structural resilience.

Assessment of the Study Hypotheses

Going back to the hypotheses from the introduction: the first one, about yield curve inversion losing some of its predictive power, holds up reasonably well. The delay mechanisms discussed earlier — policy intervention, slower transmission, debt substitution — explain why 2022's inversion didn't lead to a recession on schedule. That doesn't mean the indicator is broken, just that something changed around it.

The second hypothesis is the one this article makes the strongest case for. The combination of tighter monetary policy and looser fiscal policy at the same time, plus transmission lags stretching from under a year to two or three years, gives a fairly concrete explanation for why the expected downturn kept not arriving.

The third hypothesis is harder to pin down. The Ponzi-finance discussion and the material on zombie firms and asset bubbles fit Minsky's framework well enough, but nothing in this article actually measures debt ratios over time, so "supported" here means supported by argument, not by data. The fourth hypothesis, on zombie firms and debt deepening systemic risk, is in a similar position — plausible given the evidence discussed, but firm-level data would be needed to say more than that.

So overall: yes, the evidence lines up with the central hypothesis, but this is a qualitative reading of the situation rather than a tested result, and that distinction matters.

Limitations

A few things this article does not do. It leans almost entirely on US data, which sits a little awkwardly next to an introduction that frames the puzzle in global terms; policy transmission and debt structures are not the same everywhere, and this article does not really test whether its story travels. Finally, there is no clear threshold defined for what would actually count as the "eventual correction" being warned about here, which makes the central claim hard to hold up against future data one way or the other.

10. Directions for Future Research

A few extensions follow fairly directly from the above. Testing these hypotheses with panel data across OECD countries — along the lines of Hasse and Lajaunie (2022) — would show whether the delay mechanisms described here are a US story or a broader one. It would also be worth checking whether the term-premium result in Abbritti et al. (2024) tracks the scale of central bank balance-sheet intervention, since that link is asserted here but not tested. Firm-level data on zombie-firm refinancing since 2020 would help too — the debt-quality argument in this article is currently made on general grounds rather than checked against actual firm data.

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