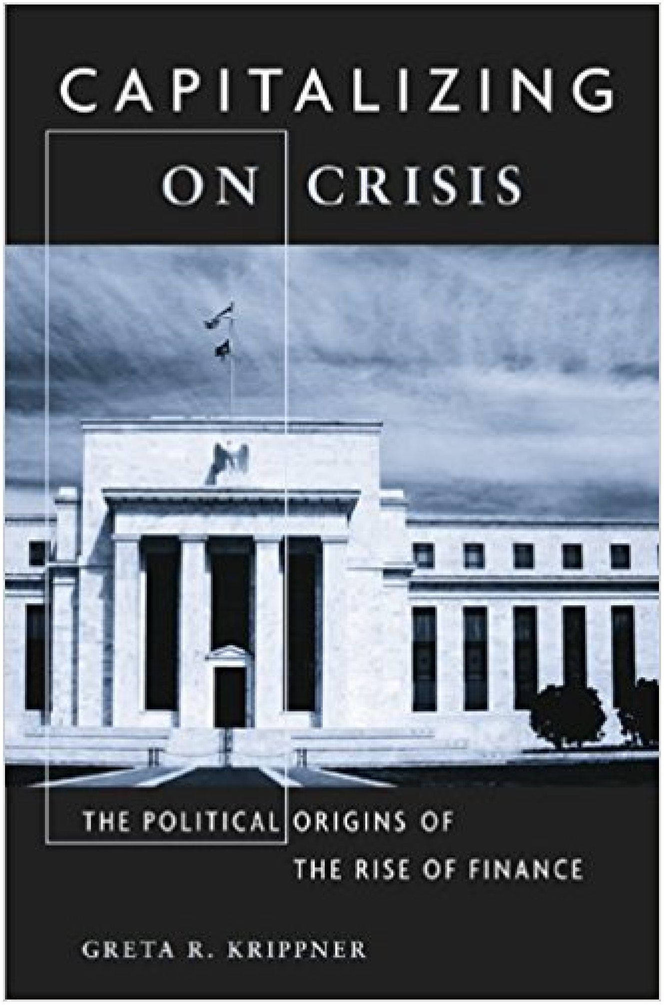
Capitalizing On Crisis: The Political Origins Of The Rise Of Finance



Synopsis

In the context of the recent financial crisis, the extent to which the U.S. economy has become dependent on financial activities has been made abundantly clear. In Capitalizing on Crisis, Greta Krippner traces the longer-term historical evolution that made the rise of finance possible, arguing that this development rested on a broader transformation of the U.S. economy than is suggested by the current preoccupation with financial speculation.Krippner argues that state policies that created conditions conducive to financialization allowed the state to avoid a series of economic, social, and political dilemmas that confronted policymakers as postwar prosperity stalled beginning in the late 1960s and 1970s. In this regard, the financialization of the economy was not a deliberate outcome sought by policymakers, but rather an inadvertent result of the stateÃ¢â ¬â„¢s attempts to solve other problems. The book focuses on deregulation of financial markets during the 1970s and 1980s, encouragement of foreign capital into the U.S. economy in the context of large fiscal imbalances in the early 1980s, and changes in monetary policy following the shift to high interest rates in 1979.Exhaustively researched, the book brings extensive new empirical evidence to bear on debates regarding recent developments in financial markets and the broader turn to the market that has characterized U.S. society over the last several decades.

Book Information

Paperback: 240 pages

Publisher: Harvard University Press; Gld edition (September 10, 2012)

Language: English

ISBN-10: 0674066197

ISBN-13: 978-0674066199

Product Dimensions: 6.1 x 0.7 x 9.2 inches

Shipping Weight: 6.4 ounces (View shipping rates and policies)

Average Customer Review: 3.9 out of 5 stars 10 customer reviews

Best Sellers Rank: #311,211 in Books (See Top 100 in Books) #233 inÃ Â Books > Business & Money > Economics > Money & Monetary Policy #565 inÃ Â Books > Business & Money > Economics > Economic Policy & Development #568 inÃ Â Books > Politics & Social Sciences > Politics & Government > Specific Topics > Political Economy

Customer Reviews

With Capitalizing on Crisis, we finally have a persuasive account of the roots of the 2007-2008 financial disaster. While most studies focus on the proximate causes, Krippner makes sense of the dramatic expansion over decades of the financial sector of the U.S. economy. She explains brilliantly how and why government officials encouraged financialization as a way to solve the most vexing problems of our political economy. (Fred Block, University of California at Davis)In this wonderfully researched and tightly argued book, Greta Krippner shows how the expansion of the financial sector in the United States not only helped delay the 'day of reckoning' for spendthrift American households, corporations and government, but also conveniently depoliticized the distributional conflicts that had plagued the nation since the 1960s. Nobody expected these providential outcomes, not even the policymakers who had opened up this space for finance in a rather ad hoc fashion, through repeated efforts to fend off crisis. By the end of the process however, the markets were in charge, and government officials were only too happy --and relieved-- to follow their lead. Capitalizing on Crisis is an absolute must read for anyone who cares to understand the origins of our current financial quagmire and the distributional dilemmas that policymakers inevitably and uncomfortably face. (Marion Fourcade, University of California, Berkeley)Amidst the tsunami of books coming out in the wake of the recent financial crisis, Krippner's work stands out for its unusual approach. Rather than addressing the venality and incompetence of those with responsibility for regulating the economy, Krippner tells the history of the growth of financialization from the perspective of the regulators...In her account, the regulators were searching for ad hoc responses to what were deeper, perhaps even intractable problems. The high point of the book is her magnificent analysis of the erosion of Regulation Q, in which regulators cracked open the door to financial deregulation, unleashing the massive deregulation that came later. (M. Perelman Choice 2011-09-01)

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There are many books about the reentry broadly into American life of a more acute risk-and-reward financialization, starting loosely in the 1970s. Personal finance has been deeply affected, so this is quite close to home for Americans at all wealth levels.This book very helpfully presents many nuts and bolts, particulars in policy actions, showing how and why that happened, stage by stage, from the onset of inflation into the 2000s. The motives of policymakers at each stage are skillfully described. This is a narrative we are still living, in full swing, as one can see various vogues of financialization being applied, then gradually losing effectiveness, replacing the managed, redistributive society of earlier days as the latter (and the mid 20th century social contract it implied) decays, and policymakers try to satisfy voters and preserve popular illusions of the American dream.

excellent insight into how and why financialization occurred and the implications for current day U.S. politics

Product and delivery were great.

This 150 page little book starts with a 28 page introduction that is a very strong candidate for ÃƒÂ¢Ã â ¬Ã Å“best 28 pages IÃƒÂ¢Ã â ¬Ã â„¢ve ever read.ÃƒÂ¢Ã â ¬Ã Â• Author Greta Krippner explains that there are three official versions of how we got here:1. Benign: The world got to be so ÃƒÂ¢Ã â ¬Ã Å“financializedÃƒÂ¢Ã â ¬Ã Â• because due to intense competition the model of the firm transitioned from the old one that looks out for multiple stakeholders to the one that looks out only for the shareholder, and the shareholder does best when the firm uses leverage.2. The Minksy / Kindleberger critique that ÃƒÂ¢Ã â ¬Ã Å“the fundamental instability of capitalism is upwards,ÃƒÂ¢Ã â ¬Ã Â• which takes the above observation that competing firms must borrow and via the three stages of finance (not mentioned by name in this book, but they are ÃƒÂ¢Ã â ¬Ã Å“hedged,ÃƒÂ¢Ã â ¬Ã Â• ÃƒÂ¢Ã â ¬Ã Å“speculativeÃƒÂ¢Ã â ¬Ã Â• and ÃƒÂ¢Ã â ¬Ã Å“ponziÃƒÂ¢Ã â ¬Ã Â•) leads to the conclusion that we wil forever create bubbles and forever take them to the point of bursting3. The Neo-Marxist critique that says that post-WWII the state made and delivered to the peoples of the Western world promises of entitlements that became increasingly difficult to keep as the post-war growth slowed down, leading to financialization of the economy as the only way these promises could be kept and offering a solution to what the author describes the ÃƒÂ¢Ã â ¬Ã Å“three crises of the state:ÃƒÂ¢Ã â ¬Ã Â• (i) the social crisis of who gets what (ii) the fiscal crisis (self-explanatory) and the (iii) legitimation crisis of sinking public confidence in the stateÃƒÂ¢Ã â ¬Ã â„¢s ability to provide.She never says it in so many words, but itÃƒÂ¢Ã â ¬Ã â„¢s the Neo-Marxist explanation she seeks to explore in the book.Before she starts, thereÃƒÂ¢Ã â ¬Ã â„¢s a 29 page expose on what financialization means and how prevalent it is. Long story short, she defines it as 1. a bigger chunk of all companiesÃƒÂ¢Ã â ¬Ã â„¢ profit coming from financial activity and 2. a bigger chunk of all corporate profits across America coming from companies one would officially classify as belonging to the financial sector. She defines how she went about measuring the increasing financialization, defends her methods well against standard critiques and proves from the official numbers that itÃƒÂ¢Ã â ¬Ã â„¢s been happening.What follows is the meat of the book: How exactly did the state go about pandering to the masses? Well, the building on the cover of the book is Eccles Building in Washington, where the Fed is housed. Turns out that this is not a book about the Neo-Marxist critique. ItÃƒÂ¢Ã â ¬Ã â„¢s a book about the Fed.So first the author discusses how Regulation Q used to work and how it regulated the supply of credit to the US economy for 40 years following the Great Depression and how, faced with rampant inflation on top of a stagnant economy the decision was taken to liberalize interest rates.The expectation had been that ÃƒÂ¢Ã â ¬Ã Å“leaving the level of interest rates to the marketÃƒÂ¢Ã â ¬Ã Â• would allow price (the interest rate) to ration credit. As it turns out (and as we are observing in places like China today, for example) credit became readily available to all, because the high price of credit created its own supply. So the abolition of Regulation Q was a big first step toward the financialization of the US economy.Next comes the story of how Paul Volcker himself, the man who killed inflation, ushered in not one but two important trends in the history of financialization of the US economy:First, by targeting the size of the money supply rather than rates, he introduced the practice of fudging the goals of monetary policy: The idea behind targeting the money supply was to hide the fact that this would result in higher interest rates, against which people were fully prepared to complain. Couching this approach in ÃƒÂ¢Ã â ¬Ã Å“monetarist theoryÃƒÂ¢Ã â ¬Ã Â• and invoking Milton Friedman was but a trick, and indeed a trick that was abandoned as soon as it became clear that M1 could no longer get pinned down due to the emergence of NOW accounts. But the precedent was established of invoking a strategy to deflect the publicÃƒÂ¢Ã â ¬Ã â„¢s criticism of monetary policy. This echoes all the way to this dayÃƒÂ¢Ã â ¬Ã â„¢s Quantitative Easing, though the author does not mention this.Second, by causing rates to touch 20%, Volcker was hoping to strangle growth by limiting the demand for credit. Instead, he made the US the destination of the whole worldÃƒÂ¢Ã â ¬Ã â„¢s spare cash. Money rushed to US investments like it had never done before. This, in turn, aided financialization in two distinct ways:1. Reagan was able to borrow via the Treasury market amounts nobody had dreamt of before, leading to deficits that were unheard of in peacetime before his presidency2. Companies that used to earn their bread selling goods and services found that they had to be involved in the financing of their customer purchases, both to compete with others who did, but also because very often thatÃƒÂ¢Ã â ¬Ã â„¢s where the profit was lurking. For example, the auto giants had to get involved in the financing.Next comes the history of how the Fed moved toward ÃƒÂ¢Ã â ¬Ã Å“transparency.ÃƒÂ¢Ã â ¬Ã Â• This has zero to do with financialization, so it does not really fit that part of the story, but it is weaved very well into the other theme of the book: the move toward Fed ÃƒÂ¢Ã â ¬Ã Å“transparencyÃƒÂ¢Ã â ¬Ã Â• is all to do with the branch of Government called ÃƒÂ¢Ã â ¬Ã Å“the FedÃƒÂ¢Ã â ¬Ã Â• being able to tell the masses that its hands are tied as it goes about doing whatever it has pretty much decided it will do, provided of course the target it has in mind behaves in the manner it expects. So for example, this would be a good way to describe the FedÃƒÂ¢Ã â ¬Ã â„¢s most recent unemployment target that was meant to act as the condition for QE to end. And now unemployment is at 5.5% and rates are still at zero we know that this goal, while transparent, was not necessarily an honest goal.So itÃƒÂ¢Ã â ¬Ã â„¢s fair to say that, while the book could not possibly hope to hold the promise offered in the introduction, it tells a very interesting story and it even predicted in 2011 stuff thatÃƒÂ¢Ã â ¬Ã â„¢s happening right now.Neo-Marxist or not, I loved it.

Descent copy. No complaints.

Krippner's argument is that distributional conflict in American society during the last three decades is responsible for the emergence of the phenomenon of financialization. Krippner argues that economic and social dysfunctions arising from the Vietnam War, inflation, and the breakdown of the housing finance system provoked the state (the Congress, the presidency, and monetary authorities) to reform the financial system by deregulating interest rates, liberalizing capital flows, and through experimental and aggressive monetary policy. Her close reading of US financial history is a refreshing jolt from orthodox texts that belabor the role of speculative euphoria, irrational exuberance, and banker folly. I found much to engage with and criticize in her account; the book will advance discussions about the direction of US finance.The case studies are unparalleled and highly original. It is obvious that Krippner read through the minutes of every Federal Reserve Board meeting over the last few decades. If you have ever read the meeting minutes of the Fed Board, then you will appreciate the author's courage in this endeavor.The author is a university professor of sociology. The book will appeal to graduate students, like myself, who are interested in the historical development of the US economy. I think many general readers would also enjoy the counter-narrative provided here, in particular those interested in financial markets, critical economics, and political economy. It is not a long book--the core material runs roughly 200 pages. It is not a quick read either; there is quite a bit of information contained in the three main chapters, although I found that the analytical components in the introduction and conclusion were easy to follow and well-written, if not a bit repetitive (which I do not necessarily fault her for). The book is also reasonably priced at about 15 dollars on Kindle.

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