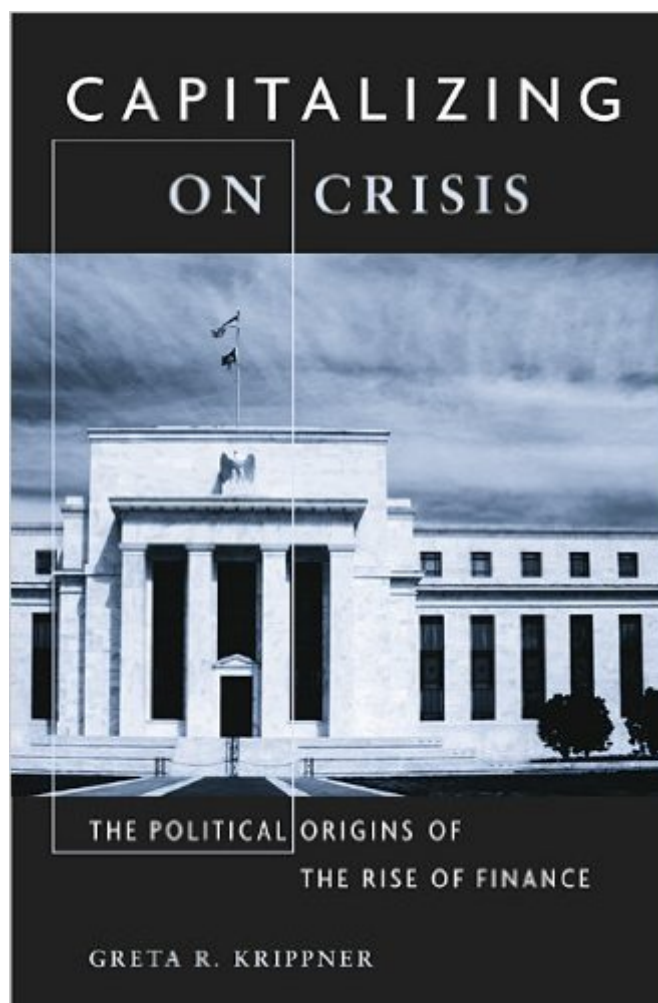


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Capitalizing On Crisis: The Political Origins Of The Rise Of Finance



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 state'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 • See all reviews • (9 customer reviews)

Best Sellers Rank: #106,808 in Books (See Top 100 in Books) #87 in Books > Business & Money > Economics > Money & Monetary Policy #150 in Books > Politics & Social Sciences > Politics & Government > Specific Topics > Political Economy #188 in Books > Politics & Social Sciences > Politics & Government > Public Affairs & Policy > Economic Policy

Customer Reviews

This 150 page little book starts with a 28 page introduction that is a very strong candidate for the best 28 pages I've ever read. • Author Greta Krippner explains that there are three official

versions of how we got here: 1. Benign: The world got to be so "financialized" 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 Minsky / Kindleberger critique that "the fundamental instability of capitalism is upwards," 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 "hedged," "speculative" and "ponzi") leads to the conclusion that we will forever create bubbles and forever take them to the point of bursting. 3. 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 "three crises of the state": (i) the social crisis of who gets what (ii) the fiscal crisis (self-explanatory) and the (iii) legitimization crisis of sinking public confidence in the state's ability to provide. She never says it in so many words, but it's the Neo-Marxist explanation she seeks to explore in the book. Before she starts, there's a 29 page expose on what financialization means and how prevalent it is. Long story short, she defines it as 1.

Krippner defines financialization as "the growing importance of financial activities as a source of profits in the economy." The excellent second chapter of *Capitalizing on Crisis* makes clear that a process of significant financialization has indeed occurred in the United States. The share of total corporate profits made by financial corporations rose from around 15% in the 1950s to about 45% (!) in 2000. At the same time, for nonfinancial corporations, the ratio of portfolio income to total cash flow increased sharply. These changes mark a structural change in the US economy, with corporations apparently channeling more of their retained earnings toward the finance of consumer credit and other unproductive activities, rather than fixed capital investment. It is also worth noting that by driving up rentier incomes, financialization has played a major role in making the distribution of income more regressive. Obviously there are a number of questions one could ask about all this. Krippner focusses on one of the most fundamental: why did financialization occur? Krippner's answer goes essentially as follows. Starting in the late 1960s, various social movements (especially groups of women, African Americans, and unionized workers) in the United States became more powerful and demanded a larger share of national income for their members. The government responded by offering a bunch of expensive new public programs. At the same time, the government was ramping up military spending for the Vietnam war. This "guns and butter" •

policy, when coupled with the declining growth rate of the US economy, was highly inflationary.

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