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I find this to be one of the best analyses of the current financial and fiscal crisis, even though the book's narrative ends as long back as a decade ago. Like few others, Krippner demonstrates the power of a longitudinal perspective in the social sciences, one that considers contemporary events as moments in a continuous sequence of historical change. While the subject of the book is the origin of the 'financialization' of the American economy and society in the 1980s, nobody who has read it can regard the drama that began in 2008 as a surprise, or as an accident on a road to ever-increasing capitalist prosperity.

By reconstructing its economic and political pre-history, Krippner helps us understand the present crisis as another stage in the long, drawn-out departure of capitalist democracies from their formative post-war era of high and steady economic growth. Financialization—'the tendency for profit making in the economy to occur increasingly through financial channels rather than through productive activities' (Krippner, 2011, p. 4)—as well as its eventual demise is shown to go back to the problems that were facing American policymakers after the end of post-war prosperity in the late 1960s. By then, rising inflation reflected exacerbating distributional conflicts for the adjudication of which no viable political formula was available. As a solution to the emerging crisis of legitimacy, American elites, according to Krippner, opted for de-politicizing the economy through deregulation and a 'turn to the market': rather than government, as under the Keynesian regime, it was the impersonal working of 'market forces' by which gains and losses were to be allocated in the harsher economic world after the end of the 'Golden Age'.

Deregulation, of finance as well as other sectors of the economy, was a political decision for politics to withdraw from the control of and the responsibility for the economy. The rise of the financial sector to hegemony that resulted from it was an eminently political process. According to Krippner, the capacity of financialization to substitute for inflation, by providing American society with imagined resources that made it feel richer than it was, was a chance discovery. High interest rates, such as those which had resulted from the Volcker attack on inflation at the end of the 1970s, happened to suck in foreign capital, which flooded the American economy with purchasing power. Regained monetary stability then brought interest rates down, allowing for an unprecedented increase in public borrowing; enabling banks to extend ever more credit to households and consumers; generating enormous profits in the financial sector as well as widespread

fictional prosperity based on asset bubbles of all sorts; and, most importantly, ultimately relieving the pressure on American politics to address distributional conflicts and the country's underlying economic weaknesses.

In hindsight, I think, Krippner might have wanted to assign fiscal policy and the politics of public debt a more prominent place, and perhaps distinguish more clearly between the different phases in the post-1960s' conflict avoidance trajectory (on the following, see [Streeck, 2011](#)). With the defeat of inflation in the early 1980s, public deficits increased dramatically, and public debt accumulated, not just in the USA, but also in most other capitalist democracies. In part, this reflected the fact that inflation could no longer be relied upon to devalue the debt. It also indicated the renewed confidence of financial capital in monetary stability. For governments, low interest rates, again worldwide, made debt finance much more affordable. In effect, what happened was that public debt took the place of inflation as a mechanism for the mobilization of not-yet-existing resources for satisfying politically critical present claims in a world in which, as Krippner rightly points out, real growth was no longer available for conflict pacification. As with inflation, however, public deficit spending could not continue forever without causing serious economic and political damage. Thus, the 1990s saw vigorous efforts by Western governments, led by the Clinton administration, which had come to power on an anti-deficit platform, to consolidate their finances. Indeed, levels of public debt declined somewhat, and the USA even ran a budget surplus at the end of the Clinton era.

This, however, did not end the reliance of the American political economy on ever-higher mountains of debt. The consolidation of public finances was accompanied by a rapid expansion of household indebtedness which ended only with the crash of 2008 (for the entire crisis sequence, see Figure 1). In fact, household debt increased at a rate that more than compensated for the decline in public debt, the two adding up to an uninterrupted rise in overall debt levels. This development, incidentally, which has been called 'privatized Keynesianism' ([Crouch, 2009](#)), was by no means limited to the USA and extended even to a country like Sweden in the wake of its financial crisis of 1994 and its subsequent pursuit of fiscal consolidation (Figure 2). While Krippner focuses on the deregulation of financial markets under Reagan in her effort to identify the origins of financialization, she seems to underestimate the significance of the second wave of deregulation in the 1990s that further facilitated the access (especially for consumers) to credit, enabling them to compensate with private means for reduced public spending and social assistance of all sorts, at a time when public investment declined even more than did public spending as a whole ([Streeck and Mertens, 2011](#)).

The most pressing question asked by Krippner's important book is what will happen now, during the fourth phase of democratic capitalism's long good-bye to

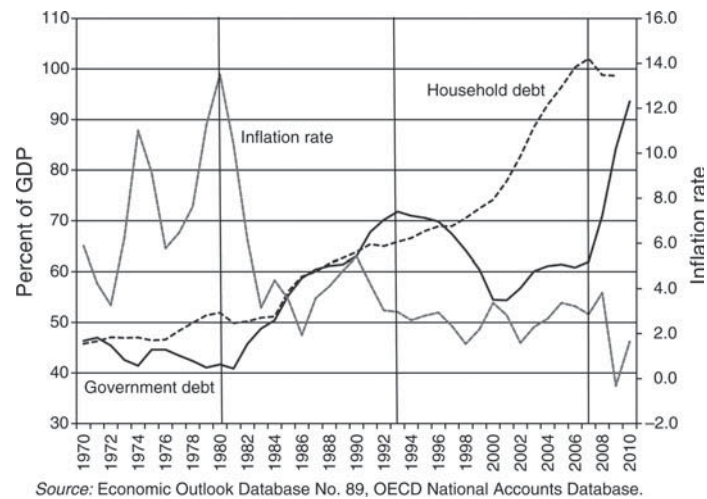


Figure 1 The post-prosperity crisis sequence: the United States.

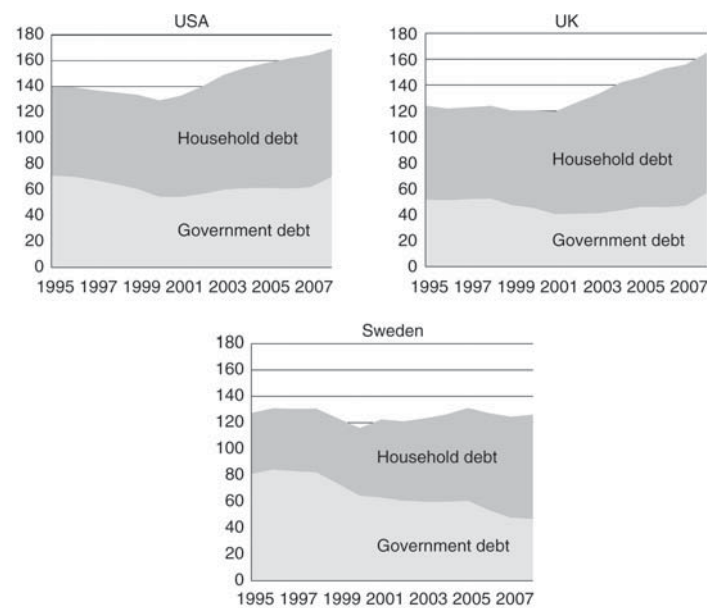


Figure 2 Government debt and household debt: three countries.

post-war prosperity. Interestingly, Krippner's travel guide on her journey back to the origins of financialization is Daniel Bell's seminal book of 1976, *The Cultural Contradictions of Capitalism*. Indeed, Bell's analysis of the dilemmas of the

politicized economy of post-war capitalism after it had lost the capacity to deliver growth appears unexpectedly farsighted and fresh and is incomparably more enlightening than today's economic and technocratic 'varieties of capitalism' literature (Bell, 1976).¹ With hindsight, there seem to be only minor differences between the contemporary problem descriptions of the 1970s offered by conservatives like Bell and by representatives of the Left, such as Habermas and Offe. Both the Left and the Right considered a breakdown of democratic-capitalist legitimacy to be imminent—and neither anticipated the possibility that the crisis might be suspended by a turn to the market, perhaps not forever, but still for several decades. This possibility, however, now seems to have passed, and as, according to Krippner, the era of financialization is over, the day of reckoning may finally have come.

Perhaps all that was wrong with the crisis theories of the 1970s was that they did not know about the one ace capitalism still had up its sleeve, which was 'financialization'? That they described as imminent what was to come only after a protracted detour through the intricacies of advanced finance, after an interlude long in terms of human lives but still short *sub specie aeternitatis*? Reading Krippner's book, one cannot avoid thinking that perhaps the validity of theories of capitalist crisis may be a matter of the different time horizons of social systems on the one hand and human beings on the other. The time it may take for historical chickens to come home to roost may just be too long for one generation of social scientists. When the crisis theories of the 1970s failed to materialize in the 1980s, the temptation was almost irresistible to consider them disproved. Indeed, the slow movement of history as experienced by humans with their limited lifespan may be the most important reason as to why we are so inclined to decompose continuous trends into discrete events—which, being construed as such, naturally offer themselves for 'pragmatic', piece-meal treatment. Given the slow pace at which history moves, it may take too much time for perceived 'solutions' to be recognizable as what they may in reality be: temporary stopgaps. 'Optimism' may just be a function of a too short time perspective.

Occasionally, Krippner suggests that the 'crisis that wasn't' has now arrived, and that the USA will finally have to address the 'questions that first confronted

¹Like Krippner, Bell draws his empirics exclusively from the American experience. For him, however, the USA stands for capitalism as a system, on the assumption that what happens elsewhere in the capitalist world does not really matter much for its future. Recent events seem to justify this, in that they are obviously driven much more by the commonalities and interdependencies than by the 'varieties' of national capitalisms. Krippner, for her part, focuses less on capitalism than on American politics, which may be the only weak point in her analysis. Had she cared to look at other countries, she would have seen that what was and is going on in the USA is more than the pathology of the political system of just one country.

U.S. society in the late 1960s and 1970s regarding which social actors should bear the burden of a fading prosperity' (Krippner, 2011, p. 139). At the end of her book, Krippner paraphrases Daniel Bell and his belief that issues like these will become 'the focus of intensifying social conflict' unless it will be possible 'to forge... a new social compact about how to achieve social objectives with limited resources' (p. 139). But then she doubts, realistically, whether American society will in fact be able to mobilize the political capacities required for what would in essence be another New Deal, after the deep 'depoliticization of the economy that has been a key element of the turn to finance' (p. 140).

What can we see, if we can see anything at all, behind the dust covering the political-economic landscape of global capitalism after the implosion of its financial markets? Private indebtedness in the USA, and probably in most other countries as well, has been declining since 2008 while public debt has, again, dramatically risen—the former due to default or forgiveness, the latter due to the public absorption of the private losses incurred by the financial sector as well as, largely futile as far as the USA goes, stimulus spending. Like its European counterparts, the American government has since 2008 been preoccupied with reassuring its creditors. In restoring its credibility on the only battlefield that now counts—the international financial markets—the Obama government is passionately supported by the Tea Party movement, even more than it might want. Still, the question is whether 'the markets' will be convinced. Having the Republican Party on board means that repayment of the debt will have to be achieved without tax increases and, very likely, while keeping the Bush tax cuts in place. All efforts to balance the budget will have to rely on spending cuts and, importantly, economic growth called forth by or taking place in spite of them, depending on how you see the economic world. This makes high demands indeed on both the credulity and the cruelty of the American people—who must be willing to accept that the real culprits in the financial crisis are public sector trade unions and the poor, not to mention pensioners and the sick, who have to be taught the hard way to sacrifice for the prosperity of everybody else, in particular those doing 'God's work' in the money-making industry (Lloyd Blankfein, CEO of Goldman Sachs, on November 9, 2009, in response to a question from a reporter). Even though one can probably once more count on American voters defending with their own blood the tax privileges of the owners of private jets, the economic and political task remains gigantic and may not in the end be feasible. Note that under the budget deal of July 31, 2011, the national debt of the USA in percent of GDP will not decline over the next decade but continue to increase, if at a somewhat lower pace.

This raises the question of a White Knight riding in and providing Americans with the cash for continuing what is left of their Way of Life at others' expense, even though it may by now have become obvious that they will never be able

to settle their bills. That question may become urgent sooner than one might think if there were indeed a second recession following the spending cuts. There may also and to the same effect be higher interest rates on American treasury bills due to declining confidence among investors—which would increase the costs of debt service and require further spending cuts—or generally as a result of higher capital requirements for banks or stricter regulation of the banking ‘industry’ (a causal nexus on which economists, as on any other important subject today, differ fundamentally). Still, Americans can probably count on the Saudis continuing to buy T-Bills in exchange for military protection, and on the Germans not knowing better than supplying them with ever more Audis and BMWs. Only the Chinese may eventually make trouble and demand for their money, say, American withdrawal from the Strait of Taiwan (aka the Chinese Sea), or abstention from the sort of costly exercises in overseas nation-building for which American governments may feel a renewed appetite once the disasters in Iraq and Afghanistan have been forgotten.

Hardly anything is for certain here, except that the coming decade, or decades, will be a time of a deeply entrenched politics of austerity, of the sort that Paul Pierson had envisaged in a series of farsighted papers more than 10 years ago—and probably much worse (Pierson, 1996; 1998; 2001). Will such politics be sustainable? As noted, sometimes Krippner seems to suggest that with financialization having served its function and exhausted itself in the process, the moment of truth for American capitalism, and by implication for capitalism in general, has finally come, after a stay of execution that had lasted for an entire generation. No more excuses, no more tricks? The problem, as far as I see, is that the four decades that have passed since the end of the Golden Age have left Americans without any collective defences whatsoever, like trade unions or a social-democratic or Communist political party, against the pincer of austerity and ever-increasing inequality. Americans also are, and are likely to remain, strangely reasonable and pragmatic while clinging to their strangely unreasonable dream of getting rich individually at the expense of everybody else and the society as a whole. This makes it improbable that they would at some point take to rioting in the streets like the Greeks, the Spaniards or, traditionally, the French. Will there be, in the language of both Bell and Krippner, a re-politicization of the American political economy? I will believe it when I see the first windows being smashed on Fifth Avenue.

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The world is still very much suffering from the impact of the financial crisis, and in this situation it is tempting to read Greta Krippner's book as an explanation for what brought it about. To cite Fred Block (on the back of the book), 'with *Capitalizing on Crisis*, we finally have a persuasive account of the roots of the 2007–2008 financial disaster'.

But as with all excellent books—and Krippner's is one of these—there are many ways of reading it. What is most valuable to me about *Capitalizing on Crisis* is something quite different, namely its contribution to an institutional history of the US economy. While this work may be important for an understanding of the roots of the financial crisis (and I shall return to this question later in this review), it is indispensable for an institutional history of the US economy.

By way of explaining this viewpoint, let me tell the following anecdote. A few years ago, there was a debate among economic sociologists at one of their strongholds in the USA about the tasks of economic sociology. On what should economic sociology focus, in order to advance? There were two camps: those who argued that it was important for economic sociologists to develop a competence