

Book Reviews

The End of Financialization? Review Essay

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Books reviewed: Greta Krippner, 2011: *Capitalizing on Crisis*. Cambridge, MA: Harvard University Press; Amato, Massimo and Lucca Fantacci, 2012: *The End of Finance*. London: Polity Press

This text reviews two recent books which problematize the fictitious commodity “money” and its management by the state in recent decades (Krippner 2011) or centuries (Amato and Fantacci (2012)). Both books are thus kept together by a Polanyian concept, and both carry scientific as well as political messages regarding the current system of unconstrained credit growth and interconnected financial markets. Whereas Greta Krippner’s work analyzes the evolution of state policies in the realm of credit and monetary policy from 1971-2001, the book by Amato and Fantacci peers back into a wider historical window from 1572 to today, and seeks to place these tendencies into the general institutional set-up of monetary governance. Through their analysis of the present crisis as resulting from structural changes in the role played by finance in capitalism, both books can be seen as speaking to each other, and this review essay seeks to structure their dialogue.

Greta Krippner is one of the main protagonists of a recent Polanyian economic sociology that maintains the central role of the state for the management of the fictitious commodities land, labour and money. Such an analysis operates on the macro-level and seeks to understand the institutional specifics of the governance an economy is subjected to (s. Krippner and Alvarez 2007: 228f., identifying institutional analysis as the positive project of Polanyi). In her most recent book, Krippner analyzes key changes in the governance of money and credit in the US from the 1970s to 2001. Krippner’s fundamental claim is that the

policies of the state have been conducive to financialization, if not even effectively creating it. The rise of profits from financial rather than productive activities (p. 4), as “inadvertent” discoveries stemming from the desire to deflect political responsibility for difficult choices, is the empirical phenomenon she seeks to explain. As Krippner says,

“the turn to finance allowed the state to avoid a series of economic, social and political dilemmas that confronted policymakers beginning in the late 1960s and 1970s, paradoxically preparing the ground for our own era of financial manias, panics, and crashes some three decades later. [...] Thus financialization was not a deliberate outcome sought by policymakers but rather an inadvertent result of the state’s attempts to solve other problems.” (p. 2)

This book may become a classic for the way Krippner’s empirical findings are grounded in a larger frame. Her 2005 paper (already something of a classic in the financialization literature) forms the empirical backbone around which she builds a layered chronological analysis of the drivers of financialization, which she locates in the policy responses to three crises in the past 40 years: “social crisis, fiscal crisis, and legitimation crisis” (p. 24). There is no doubt about this empirically-solid and theoretically-stimulating book making a substantial contribution to the development of a coherent explanation for the rise of finance over the past decades – even if it regrettably continues the customary mistreatment of financialization as an Anglo-American phenomenon.

Krippner’s three historical chapters show how the turn to the financial market was motivated by a search for “depoliticization” of distributive questions, letting the market take the difficult decisions which became necessary due to declining growth since the 1970s. Deregulating financial markets allowed policy makers to hand over responsibility for social outcomes, and by opening the “taps” of credit, present problems were displaced into the future. In the third chapter, Krippner interprets the loosening of the credit supply in the 1970s and simultaneous removal of the credit ceiling as an attempt to allow a “high price of credit” to ration credit and deflect blame being directed towards politicians. The big surprise (and unintended consequence), Krippner argues, however, was a seemingly limit-

less supply of credit, as consumers proceeded to take up credit at high interest rates. This, however, left the problem of inflation unresolved.

In the 4th chapter, Krippner argues in line with Greider (1987) that the switch to the high (real)-interest rate regime in the 1980s paradoxically provided an answer to a (potential) fiscal crisis caused by the high budget deficits of the Reagan era. The high interest rates, brought about by an impasse between the White House and the Fed, actually attracted foreign capital since 1983 in large swaths; a time in which, as Krippner puts it, the Reagan administration “discovered” the global economy and its own ease at borrowing. Her original work in this chapter resides in the reconstruction of how this solution was not planned, but rather an inadvertent discovery, which was then harnessed by the Treasury to finance a post-oil-shock recovery and run permanent deficits at the same time.

The chapter on the making of monetary policy (chapter 5) is arguably the heart of the book, as it treats the management of the last remaining instrument for the state to control credit supply after structural deregulation: the interest rate. Here, Krippner analyzes shifts in the Fed’s policies from 1980 to 1997, where it always sought to manage the interest rate at a distance, avoiding political responsibility while doing “what needed to be done” (120). In a policy learning process, the Fed increasingly sought to let markets react to the Fed’s intentions rather than its deeds, thereby shifting actual political responsibility to the markets. Krippner’s work is most original, in that she not only demonstrates the obfuscating nature of monetarism (along the lines suggested by Greider 1987), but also expands this analysis beyond 1987 to show that the fear of being drawn into politics was a constant motivating factor in the work of the central bank. It is at this point that she can most clearly show how the separation between the political and the economic is carefully crafted. . For the Fed, the fear of market collapse is bigger than the fear of political responsibility. Not upsetting expectations becomes a policy constraint, and the Fed effectively a hostage of the market. Her analysis of the reflections inside the Fed on the danger of this mirroring game, in which financial markets seek to anticipate the Fed’s next moves, while the Fed seeks to anticipate market reactions, is fascinating and disturbing at the same time.

The scaffold of the triple crises of capitalist societies emerging in the late 1960s (social, fiscal and legitimacy) keeps the narrative brilliantly together, but it sometimes stretches

beyond the limits of what her chapters are supposed to show. There was no fiscal crisis in the US in the 1980s, and it therefore seems inappropriate to speak of the formulation of policy responses to counter it (p.86). This formulation is furthermore inaccurate as it was rather inaction and impasse rather than action which resolved these tensions. On the other hand, the constraining role of globally growing financial markets, while clear in the data (e.g. Eurodollars destroy US domestic regulation; p.67, cf. Konings 2008), and conscious policy inaction under Greenspan in the fifth chapter) are underemphasized, with Krippner instead emphasizing the evasion of political responsibility. The state may have inadvertently discovered these (non-) policies by seeking to deflect responsibility, but once established, growing global market forces seem to have locked policymakers into them.

Krippner interprets financialization as a means to delay the difficult political decisions that became necessary given the declining affluence of US-society since the 1970s. But this declining affluence is nowhere proven in the book, unless one equates declining growth rates and growing indebtedness with declining affluence. Yet every credit of one actor is the debit of another; and affluence has not declined (per capita income in the US almost doubled between 1970 and 2007, although this growth was of course distributed highly unevenly). The appropriate political question then might rather be how to get those who benefited from financialization to finance the alleviation of inequality (even if against their will). Another question, of crucial importance, is how a future financial system which finances “real” economic activity without promoting the excessive accumulation of debt may look. Krippner alludes to a possible end of financialization in her final chapter, but actual trends of credit growth (e.g. the accelerating growth of student loans, or the rush of return-seeking creditors into fields like microfinance) coupled with a lack of structural reform in the US point to more of the same, rather than a structural break. Without a rethinking of fundamental questions of the role of financial markets, how should such a break look like?

This question of how to establish a “truly healthy relationship between economy and finance” (p. vii) is central to Amato and Fantacci’s book *The End of Finance*. The title is a wordplay, pointing on the one hand to the “end” of finance in the sense of a “goal”, namely to finance real activity and to come to an end with that activity, and on the other hand, the end of the current financial system as implied by the financial crisis. The authors centrally attack

the institutional reality of money working as a commodity traded on financial markets. The interlinkage of the function of money as a unit of account, in which debts can be recorded, and as a store of value that can be exchanged on financial markets against debt instruments, is for them the *differentia specifica* between capitalism and a market economy. As they put it, "capitalism is a market system with one market too many, namely the money market" (p. 224). Since money can be hoarded indefinitely, rather than being used in its exchange function of unit of account, this can cause the breakdown of all markets. Their specific reading of Keynes, from which they develop their theoretical framework, their corroboration of the different functions money can serve and their effects with historical passages is the strongest, most lucid part of this book. Large parts of the book, however, suffer from repetition and draw their theoretical inspiration from Keynes alone, without ever appraising the contributions of other great theorists, particularly with respect to theories of money and financial capital, and therefore fall short of their potential.

Amato and Fantacci's book relates much more directly to the latest financial crisis than Krippner's. For them, the "subprime" breakdown revealed fundamental flaws in the economic system based on the increasing interchangeability of credit and money, granting creditors the capacity to exchange credit into money on liquid secondary markets, and thereby to dispose of the risks inherent in the creditor-debtor relationship. The interchangeability, based on liquidity, becomes a self-propelling mechanism in financial markets, as the growth of credit combined with functioning secondary markets generates more liquidity.

Thus far, the story is fairly standard. But Amato and Fantacci tell the story because their critique is fundamentally directed at the entire idea of liquidity – the notion of the tradability of credit acting as the basis for a sensible allocation of credit. Calling liquidity a "fetish" (p. 19), they argue that liquidity inherently produces crises:

"It is precisely the mechanism of ever higher stakes, inherent in liquidity, that makes the system based upon it structurally incapable of fulfilling its purpose – namely to provide support for economic activity. This end is never achieved. We either go too far (boom) or fall too short (crunch) – and by a measure that, in both cases, cannot be assessed." (p. 23)

The authors trace these developments historically as far back as the founding of the Bank of England in the late

17th century, which generated a system of state debt with a liquid secondary market which permitted the British state to amass debt without ever being forced to repay. At this moment, capitalism as a system "that would perish if all accounts were settled at the same time" (Marc Bloch, quoted on page 58) came into existence, a system "that is fuelled by an optimism that constantly discounts the profits of the future, its eternal precariousness" (ibid).

They not only trace the evolution of this system, but they also show that history has witnessed other financial systems in which the persistent growth of credit is not a *sine qua non*. Clearing systems, in which money of account does not gain the status of a commodity (and thereby does not become misappropriated as a store of value) and in which all actors have an incentive to settle the accounts (such as in the European Payments Union of the second half of the 1940s) are shown to provide a means for credit as well as for exchange without tending towards instable disequilibria. Their radical critique of liquidity as the institutional means to dissolve the bond between creditor and debtor (which is systemically impossible, as the risk of default cannot disappear) allows us to see the recent regulatory reforms as what they are: a system-immanent attempt to restart credit growth, in an approach they call 'double or quits': to ensure that the accounts are not settled, instead restoring the trust in securitization and the banking system. The government as the lender of last resort is hostage to a system which it has to re-inflate in times of crisis or witness a paralysing debt-deflation.

The *End of Finance* is certainly a more daring effort than Krippner's *Capitalizing on Crisis*, with its far greater theoretical scope and depth, but as a result it is less clear whether it achieves its own "end" of resolving the contradictions inherent in the present crisis. Both authors question what Dore (2008) has called "that article of faith itself, the thesis that these free, competitive, global financial markets are the best way of providing cheap capital to all who can most effectively use it". Their diagnoses sound radical – "when money is the kind of commodity that it costs nothing to produce (...) and there can always be more of it, the only limit and the only measure of its growth and 'sustainability' becomes, in a wholly intolerable way, the crisis itself" – but their prescriptions are anything but radical or innovative:

"It really is a matter of 'going back to Bretton Woods', not in order to repeat the mistakes that were made on that occasion

and that lie at the root of the present imbalances, but in order to seize the opportunity that was then lost.”

For Amato and Fantacci, the solution then essentially lies in saving capitalism from the financial markets, so that capitalism ostensibly could function properly. For them, there are no structural problems of politics, only more or less useful ideas which can guide policy – let alone class antinomies or antagonistic material interests which may have led to the present crisis. Amato and Fantacci merely wish to see the “better” ideas (that is, Keynes’ ideas) prevail. Krippner, on the other hand, by reconstructing the political forces and distributive effects behind the “turn to finance”, also asks about the kind of economic system which could ever give rise to a dominance of financial markets over socio-economic life in the first place.

The question of reform of the system gains urgency, as all attempts to resolve the 2008 crisis in the Western World have only succeeded in producing new crises. The last part in Amato and Fantacci devoted to reforms in which money is de-commodified is not entirely capable of charting this course, as it bears the mark of swift production under the impression of the financial crisis. However, their poignant critique of money as a commodity interchangeable with credit provides a direction for deeper thought about the contradictory nature of present-day money, and the historical example of the payments Union in Europe may offer some guidance as to how to deal with trade imbalances. As such, the book is theoretically very valuable. The authors are well aware that given a system of credit-money, all other forms of money that deny it the status of a commodity will have insurmountable disadvantages. Given this fact in conjunction with the structural imperative of the state to persistently re-inflate a financial system in times of crisis, one is left to wonder if the nationalization of banks and the radical simplification of the financial system are not the most prudent short-term answer to the problem. And maybe this is the political debate we should be having, before dealing with the persistent inequalities. But what Krippner and Amato Fantacci agree upon, is that this requires a body politic mentally equipped for such a re-politicization of the economic system, an issue on which both remain skeptical.

References

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Krippner, Greta/ Anthony S. Alvarez, 2007: *Embeddedness and the Intellectual Projects of Economic Sociology*. In: *Annual Review of Sociology*, Vol. 33, August 2007, 219-240.

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Book: Beckert, Jens and Patrik Aspers, (eds.), 2011: *The Worth of Goods: Valuation and Pricing in the Economy*. Oxford: Oxford University Press.

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The 14 chapters in this edited volume address valuation and pricing as central to the formation of market order. Both the empirical settings and theoretical bases of the chapters are diverse, ranging from contemporary art markets to environmental disasters, and from the classics in sociology to the literatures in anthropology and economics. Themes such as status and the intersubjective creation of meaning link all of the chapters, as does a qualitative methodological orientation. Rather than treating prices – or how they are set – from a quantitative point of view, this volume contributes insights on the social processes of assigning value. Simply by documenting the many ways in which interpersonal and institutional interaction shapes prices and other measures of worth, the volume represents a significant step forward in the ongoing jurisdictional struggle between economic sociology and neo-classical economics.

This contribution is stated most clearly in Beckert’s chapter, which offers a novel theoretical perspective on the imaginative value of goods. In this fascinating piece, Beckert uses Durkheimian theory to extend the notion of valuation beyond the usefulness and status-signaling properties of objects and into the realm of the intra-personal – the meanings, sensations, and experiences that possessions can evoke. While the use and status dimensions of value have been amply addressed in previous economic and sociological research, the imaginative value of goods has been virtually ignored in contemporary social science, despite the ubiquity of this mode of valuation in everyday life. When we talk about cherishing an object that has “senti-