disClosure: A Journal of Social Theory

Volume 24 *Market Failures, Famines, & Crises* Article 11

5-5-2015

Financialization and Social Theory: An Interview with Dr. Greta Krippner

Grace Cale
University of Kentucky

Lydia Shanklin Roll
University of Kentucky

DOI: https://doi.org/10.13023/disclosure.24.11

Financialization and Social Theory: An Interview with Dr. Greta Krippner

GRACE CALE & LYDIA SHANKLIN ROLL
University of Kentucky

Greta Krippner is Associate Professor of Sociology at the University of Michigan. Her research interests include economic sociology, political sociology, comparative and historical sociology, and social theory. She finds that state policies created the conditions conducive to financialization that solved some current policy dilemmas of the 1970s and 1980s, but created major weaknesses that would ultimately fail in the new millennium. 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, especially the stagnation and deregulation in the 1970s and 1980s, the encouragement of foreign capital in the US economy, and large trade imbalances caused by direct foreign investment.

disClosure Interviewers: Grace Cale and Lydia Shanklin Roll

DC: Our first question is, would you actually consider yourself a social theorist, and why or why not?

GK: Yes, I strongly identify with social theory and think of myself as a theorist. My identification as a theorist reflects the fact that for the kind of work I do, a large part of the challenge is figuring out what the problem is that I'm interested in exploring. And that is something that requires a deep engagement with theory. As an example, starting this book project as a dissertation years ago, I was thinking about the transition in the structure of the economy that I came to refer to in the book as "financialization." In setting out financialization as my problem, it wasn't immediately obvious what I was after and what the parameters around the problem were. In historical research, problems tend to be open ended in this way, and in my mind, theory is necessary in order to see what the problems are and what is interesting about them. So, I can't proceed with the kind of work I do empirically without having theoretical engagement be a salient component of the process.

DC: At what point do you make that realization, that social theory was going to have to be something that you really had to engage with in order to do this project well?

GK: Well, I would say, in terms of my own trajectory, it was relatively late in the game. I didn't come into graduate school thinking that I was a theorist. I enjoyed the sociological theory courses I took. They were, just as for you, part of our required curriculum, and I took them and enjoyed them. But I related to those courses like I did to my statistics coursework. They weren't really key to my intellectual identity at the time. And then in the process of developing this project, for the reasons I'm describing, I found I was increasingly drawn towards thinking about theoretical questions and couldn't in fact work through some of the issues I was interested in without that element.

DC: All right. So, how would you actually describe your work for non-sociologists?

GK: That's a very hard question, actually. I would say that my orientation is historical. So, I'm a historical sociologist, probably first and foremost. Which is to say that whatever it is I'm interested in, the way for me to understand it and get access to it is to trace its emergence, transformation, and evolution over time. That's how I get leverage on the questions that are of interest to me. And I'm broadly interested in, for lack of a better term, economic questions. I say for lack of a better term because what we think of as "economic" is too narrow, partly because of the way the discipline of economics has defined that set of topics. So, I am interested in economic questions and processes very broadly construed. I suppose my research has a critical edge as well. The motivation underlying my research is a desire, as with many scholars, to understand the choices made in the past that have brought us to where we are now, and to make clear what those junctures and decisions were, where there were turning points, where there were other possibilities, to always look for the ways in which social arrangements are more mutable than we can sometimes see when we're focused in the present moment. I think that is the great strength of both historical work and also social theory, in that they enable one to be more aware where there are alternatives and what those alternatives might look like.

DC: How would you put your current, or most recent, projects in that context, of how social theory is brought into your work but more in a way understandable to a general audience?

GK: So, how would I think about current work I'm doing in terms of the way that I've just characterized my work generally? The current project that I'm researching explores the emergence and evolution of the notion that we should bear the cost of our own risk. This is a widely accepted normative principle in market societies governing how risk should be distributed and shared. So, how did this become an established way of thinking about how risks are distributed, when did this come to seem like a natural way of doing things, how has it been legitimated, and where was it contested? There are other ways of thinking about how risk could be shared in our society that were historically available and were foreclosed.

DC: How would you feel that, this new work, or *Capitalizing on Crisis*, might fit into a broader social theory narrative?

GK: I think another underlying issue in my work is about expanding the boundary around the economy. One of the problems that we encounter as social scientists is we have these categories that we think with: state, market, community, and so on, and we tend to bound them off and treat them as pre-constructed realities. That's a very prominent problem in economic sociology, which is another one of my primary intellectual identities. In economic sociology you see this kind of carving up of the space: here's the market, here's the state, and so on. I think one of the things that my work tries to do is to interrogate where the boundaries between those spheres of activity are drawn, and how when we relax that boundary we can see things that we don't see as easily when we place ourselves within these categories and treat them as natural. So, if I were to say, here's a way in which my work is pushing at social theory, it would be partly to think in a deep way about what we mean when we talk about the market, as opposed to the state, and what the relationship between those entities could be and how it has evolved, and not to start from a preconceived notion of what either one of those things is, and to let it emerge out of historical analysis.

DC: Might you be able to summarize some of the key findings, or some of the biggest "take-home" messages of *Capitalizing on Crisis*, for our listeners who haven't had the privilege to discover it yet?

GK: Yes. So, the book is basically dealing with the financialization of the US economy over the period since the 1970s. By financialization, I'm referring to the growing importance of financial activities in the economy. The most dramatic way to see this is to look at where profits in the US economy are generated. So, if you are looking back at the 1950s and 1960s, financial profits as a share of total profits in the US economy are around 15 percent. The financial sector is significant, but does not represent an overwhelming share of profits in the total economy. By 2001, financial sector profits are over 40% of total profits generated in the US economy. That is a pretty dramatic change in the structure of the economy. And that is just the financial sector itself. The other piece you could look at, and I do look at in the book, is the financial income of non-financial corporations. What I do in the book, beyond empirically demonstrating this shift, is to provide an account of the state's role in creating conditions that were conducive to financialization. Obviously there's a lot more going on there than just state policy: there are changes in firm strategy, in market structure, and in available technologies. But my interest in the book is in thinking about the policy environment that made the turn to finance possible. And, in a nutshell, the argument of the book is that there were a number of discrete policy decisions that were quite influential in shaping this outcome, but those policies decisions were not made with the goal or objective of creating a financialized economy. They were really ad hoc, inadvertent responses to unresolved distributional conflict in US society as growth rates in the economy slowed. And one of the interesting things to me about the financial crisis of 2008-2009 is that those distributional dilemmas came right back to the surface. Financialization was not a resolution of these problems, but a displacement of them into the future. It was a kind of deferral. So, without going into all the details, that is essentially the story of the book.

DC: I know that some have wondered, and this may perhaps be a little bit of a Domhoffian argument, that given the various political groups of varying power levels who really strongly advocated for policies that paralleled the effects of financialization or neoliberalism, do you think that nobody really anticipated or encouraged this result?

GK: Well, the interest group story is there. I guess the reason I chose to write the book as I did, which is not primarily an interest group story, was because I felt like that story has been overplayed a bit. The financial sector is obviously incredibly powerful and has been influential in enacting policies that have served its interests over many decades. That much is evident. But I think the way in which that analysis can go off track is that it exaggerates, to some degree, the coherence of the financial sector and therefore overstates its influence. So, with respect to the particular policy junctures that I determined were most significant for creating conditions conducive to financialization – the deregulation of the financial sector being key – the role of the financial industry is very interesting. First of all, the financial sector industry did not initially support financial deregulation. They were doing quite well in the existing regulatory environment and staunchly opposed any change. I'm talking here primarily about the removal of interest rate ceilings from consumer savings deposits. It turns out, for reasons I detail in the book, that this seemingly arcane change was very important in terms of moving to an economy in which credit flowed freely. And if there's one thing that gets you to a financialized economy, it is having access to credit that isn't subject to any controls or constraints. So, with respect to that particular deregulation, the impetus for this came not from financial sector actors but primarily from consumers who were disgruntled that they were not getting better rates of return on their savings. So, that's one example. The other example that gets a lot of attention in the financial deregulation story is Glass-Steagall, the removal of the Depression era banking laws that required a separation between investment banking institutions on the one hand and commercial banking institutions on the other. In that case, there was a long push to repeal Glass-Steagall over three decades. Part of the reason that it took so long to repeal the law was that financial sector regulations created a compartmentalized financial system, and industries that had different roles in the financial system also had different interests vis-à-vis legislation. And so, with efforts to repeal Glass-Steagall, one industry group might push for it, but another industry group would oppose it, and then the bill would get rewritten to accommodate the group that was opposing it and support for the bill would flip. And that is why it took three decades to repeal that legislation because there was no unified push behind it. To put the point more succinctly, the financial sector, while very powerful, is not a monolithic actor and has never been a monolithic actor. What people who are writing this kind of narrative tend to do is to look at the total political contributions that financial sector actors make, which are of course huge. But you can't go from this fact to the conclusion that the financial sector, as some kind of cohesive whole, is exerting effective power because the financial sector itself wants different things and is internally divided. Once Glass-Steagall was repealed this changed somewhat, as the segmentation between different financial industries was removed. It is now up for grabs, and what that means is the possibility for deeper integration of financial sector actors and more cohesion. Arguably, the financial sector has become more cohesive and more influential and powerful as a result of this very deregulation, but that is something that occurs after the development that I'm describing.

DC: I like that you actually just mentioned that you've been focusing on these trends in particular as they started in the past. So, would you be interested in sharing with us what you think the long-term implications of this financialization process could be?

GK: This is where things get dark. One of the things I was thinking about as I was writing the book is that, as Monica Prasad argues in her new book, there is no natural constituency for financial regulation. In other words, once you move to a situation where you have untapped credit, and you've given everybody a piece of that action, then it is not just the financial sector intuitions that are benefitting from this, it is you and me when we can go get a mortgage with almost no down payment, and all of the ways that we subsidize our consumption. There is a very broad societal interest, if you want to put it that way, in having an economy in which credit is abundantly available. The downside is when you have an economy in which credit is abundantly available, you also have an economy that is very prone to asset price bubbles, as we've seen, first in the stock market and then in housing, and the problem is that this creates a lot of volatility. And, in the meantime, a lot of the social institutions that we've had in place to protect people from volatility, the welfare state primarily, have eroded. So, this again goes back to the risk project we were talking about earlier: how our society handles these risks that are generated by the market, but in an environment where there is less regulation and more volatility. How do we cushion people from those risks? A result of financialization is a situation where there isn't within the political system any constituency that is there to say, "No, we actually have to regulate these financial markets." There are huge political costs to doing so and huge political benefits to being the political actor that continues to deliver credit. So, that is the difficulty. Essentially, we have created a situation where we all have an interest in having a lot of credit, and it is very hard to think about what the political mechanisms are for moving away from that system even when we recognize it is dangerous. So, the long-term implication is that we will live in an economy in which we see more volatility, people more exposed to risk, without having the proper mechanisms in place to protect people from those risks, other than, again, going back to the newer research I was describing, asking people to manage on their own, which is a departure from the way we've handled our affairs through most of the 20th century.

DC: It's interesting that you mentioned this idea of market volatility because, throughout our discussions in the market failures seminar, we've discussed how the parallel process of neoliberalism seems to relate also to market instability. And so, because neoliberalism appears to share a lot of the same causal factors as financialization, how would you describe the relationship between these two concepts?

GK: Well, you warned me you were going to ask me this, and I haven't made a lot of progress overnight in thinking about it. I think part of the difficulty is it depends what we mean by neoliberalism. There is the question of what we mean by financialization too, but at least in my own mind this is clearer, because I've worked in my own thinking to clarify the concept. As for neoliberalism the term is sometimes used to mean a set of discrete policies – some approach to monetary policy, a certain kind of tax policy, a certain approach to the welfare state – there's a kind of laundry list of things that we think of when we say "neoliberal." More broadly, the term is sometimes used to refer to what my colleague, Margaret Somers, calls "market fundamentalism." So, the idea that we live in a society where there is a notion that the market is the preferred social institution by which we address various kinds of questions, and that we rely on markets to do X, Y, and Z. The market is privileged over the state, or community, or whatever the alternatives are thought to be. I think that's probably the definition of neoliberalism with which I'm most comfortable. And if we think of it that way, then the relationship between that idea and financialization is so close that it is almost hard to separate them. Because the turn to finance is closely connected to the deregulation of the market and the growing emphasis on the market in our society. You can see that in the chapter in the book that deals with the evolution of monetary policy. It's a complicated story, but I think the boiled down version is that policymakers figured out ways of implementing monetary policy that effectively transferred political responsibility for decisions that would constrain the economy from the state to the market. The state was never really out of the picture, but there was a kind of displacement of political responsibility onto the market. And that, in essence, is a neoliberal governance strategy. So in a sense, the things that I'm exploring with financialization are so integrally connected to what usually gets talked about in discussions of neoliberalism that I don't know that I can neatly pull them apart and say that one has a causal effect on the other, because I see them as really bound up together.

DC: So, as you know, returning a little bit to the idea of social theory, a lot of early graduate students often struggle to determine how to select research methods or to incorporate theory into their work. For example, you have often referenced Bell's works. So, how did you select the theories and methods that were best for this project over the countless others you could have chosen?

GK: I wish I could say I was systematic, or that there is a method to my madness, but I'm afraid it is more madness than method. Let me take your question apart by addressing the method and the theory separately. As far as the method, to be honest, the only way I know to begin a project is to find some problem in the present that needs unpacking. In the case of this particular project, I began this research as a graduate student in the late 1990s. This was the height of the so-called dot-com bubble, when there was financial news on the front page of the newspaper nearly every day. You just couldn't avoid it, every minute you were getting blitzed with finance, finance, finance, and I was really intrigued. Why is finance so salient in our culture at this particular moment? The way that most of the accounts that I was encountering talked about it was as a stock market bubble. And I thought the stock market was part of it, but I also believed the frothiness of the stock market fit into something much larger. So, I had a vague intuition that there was something there that was worth exploring, and it helped a great deal when I met Bob Pollin, who is a heterodox economist at UMass Amherst, and he started talking to me about "financialization." I first learned that term from Pollin, and once I had the term I felt like I had something I could put my hands on and start to think about more systematically. So the first thing for me is, what is the problem in the present that I'm trying to understand? And once I've figured out what that problem in the present is, then my method is, again, always historical: I try to move back in time and to identify the key junctures and turning points. What was it that gave rise to this? How far am I going to trace this back? As far as researching my dissertation, I started by going to the business library. I began pulling issues of *Business Week* off the library shelves – this was before everything was digitized! I actually went through *Business Week* and read every issue from the mid-1960s through the early 2000s. This gave me a way of immersing myself in the period. From my reading, over many months, I was able to identify what seemed to be the key junctures that later formed the empirical chapters of the book. And within each chapter, the sources differ, but the method is basically the same. So, for the monetary policy chapter, for example, I was aware that there were transcripts from the Federal Reserve meetings, I knew the changes in monetary policy were extremely important for financialization, and I knew that I would have to somehow get on top of those developments and learn about them. And so, I started reading thousands and thousands of pages of Federal Reserve meeting transcripts, basically from beginning to end. For me, there's something about reading sources through – okay, here's the January 1979 meeting, here's the March 1979 meeting, here's the June 1979 meeting – it gives you the chronology, and I think once you have the chronology you can create a narrative. Once you have a narrative, you have a theory, because you've implicitly theorized to write a narrative. I mean, when you write a narrative, you have made choices, and you may not recognize them as theoretical choices, but they are theoretical choices. So, it's all about finding the narrative and then theorizing the narrative. That's the method part of your question. The theory part is closely related, and maybe there's not as much to say, other than to repeat what I just said: once you have a narrative, you have made theoretical choices. And then it's a question of figuring out what those theoretical choices were, and being able to name them. And that requires reading as widely as you can. In this particular case, as you mentioned, Daniel Bell's work turned out to be the key for the argument that the book makes. Actually I read Bell at the very end of the project when I was working on the final revision of the manuscript. I had read *The Coming of the Post-Industrial Society*, but I had never read *The Cultural Contradictions of Capitalism*, which is really the touchstone of the book. As I was working on the final revision, I thought I've got to go and read this Daniel Bell, and the narrative that I had written was the narrative that Bell allowed me to theorize. The questions that Bell was grappling with in the 1970s were questions that illuminated the process that I was describing in the book so well. So, there's a bit of luck involved, but figuring out what the relevant pieces are and weaving it all together is for me the most satisfying part of research.

DC: You've mentioned several times that you really strongly identify as a historical sociologist. You also mentioned economic sociology, and political economy. So, how did you particularly select your research specializations? Were they kind of already a function of preexisting interests? Or, did you find that you just, kind of, stumbled across them as you worked on other research projects? Or, might it have been something else that brought you to that realization that, you know, 'I can place myself within these professional categories'?

GK: Political economy was the term that I had grabbed onto as an undergraduate to characterize my interests. Beyond that, economic sociology, historical sociology, social theory were all things that I discovered along the way and were not identities I had already developed when started graduate school. I didn't even know what economic sociology was, actually, and the same is also true of historical sociology. I was more familiar with social theory, but as I said earlier, this wasn't something I identified with at the beginning in defining my interests. So, I was a young graduate student when I started, and an unformed one, for better or worse. Now we see students coming in with very specific ideas about their future dissertation work, and they are much more professionalized and have a much clearer sense of what the discipline is than was the case for me. I just had no idea. The only thing that was constant was an orientation to political economy questions. Everything else fell into place as I took classes, sifted through what was interesting to me and what wasn't, and especially, as I started to work on research. And it was a continual process of searching, and one that was a little bit angst ridden for me, because I never felt like I really fit anywhere, I never quite felt like I was a card-carrying anything. I felt a little bit at the margin of all of these areas, but over time I've come to feel quite the contrary, that I inhabit all of them quite comfortably. So, that is just a process that takes time, or took time in my case, and I think it is good to be open to the journey. It seems to me that we've gotten overly anxious about getting people stamped as soon as they walk in the door. I don't think that's necessarily conducive to having the best intellectual experience.

DC: That is all we have for you. Thank you for coming to speak with us.