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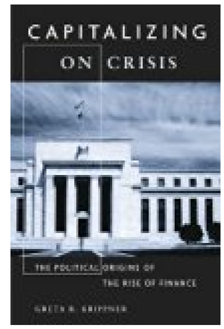
Louis Hyman. *Debtor Nation: The History of America in Red Ink.* Princeton, NJ: Princeton University Press, 2012. 392 S. ISBN 978-0-691-15616-3.

Greta R. Krippner. *Capitalizing on Crisis: The Political Origins of the Rise of Finance.* Cambridge: Harvard University Press, 2012. xv + 222 pp. ISBN 978-0-674-06619-9.

Julia C. Ott. *When Wall Street Met Main Street: The Quest for an Investors' Democracy.* Cambridge: Harvard University Press, 2011. 313 pp. ISBN 978-0-674-05065-5.



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Of Unintended Consequence: The History of Finance Capitalism in the United States

The 2007 subprime mortgage crisis has made abundantly clear how strongly finance is embedded in the American way of life. As houses were foreclosed on, jobs were lost, and retirement accounts shrank, many Americans experienced the consequences of the worst financial crisis since the Great Depression in their daily lives. If we want to understand the collapse of the subprime mortgage market and the recession that followed, we therefore need to address the broader role of finance in American society: How did we get to the point where outstanding mortgage in the United States nearly equaled its GDP ($13.8 trillion and $14.4 trillion in 2010, respectively)? What explains the fact that about a fifth of American families have a stock portfolio? And why are there nearly 1.2 billion credit cards in circulation in the United States (a stunning average of almost eight cards per cardholder)? To answer these questions, it is important to look beyond the events of 2007 and interrogate the broader history of finance in the United States.[1]

Three recent scholarly contributions shed light on the history of finance in the United States. Greta Krippner's *Capitalizing on Crisis* investigates the policy decisions that contributed to the financialization of the American economy; Louis Hyman's *Debtor Nation* provides a history of American consumer finance; and Julia Ott's *When Wall Street Met Main Street* analyzes the emergence of broad-based stock ownership in the first two decades of the twentieth century. Each of these books moves beyond the often-heard narrative around American finance as capitalism gone awry, driven by business greed and/or political irresponsibility. Instead, all three authors conceptualize finance as a central part of the social contract between state and society. Thus treating finance as an integral part of political and social history rather than an isolated object of study, the authors recount a history of finance capitalism that is complicated, contradictory, and messy–yet undeniably fascinating.

Greta Krippner's *Capitalizing on Crisis* provides a political history of finance capitalism in the United States. In her book, Krippner argues that "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" (p. 2). Distributional conflicts, balance-of-payment problems, and a loss of confidence in the state's problem-solving abilities–each of these "crises of the state," brought about by inflationary pressures on the economy, demanded a forceful response from policymakers (p. 16). Krippner emphasizes the contingency of the policy regime that resulted: focusing on the deregulation of interest rates, the deregulation of foreign capital flows, and changes in monetary policy, the author argues that each of these policy shifts meant to alleviate the crisis of the state inadvertently contributed to the financialization of the American economy.

According to Krippner, the process of financialization–defined as "the growing importance of financial activities as a source of profits in the economy" (p. 27)–has fundamentally altered the American economy. Not only have the FIRE (finance, insurance, real estate) industries steadily increased their share of GDP and overall corporate profits since the 1950s, but financial activities have become an important source of profitability for nonfinancial firms as well. Considering the overwhelming role of finance in our economy, it's hard to believe that policymakers once thought that capital was a scarce resource, of which society never had enough. And yet, that assumption is exactly what motivated the three policy shifts described by the author. Krippner chronicles almost two decades of contestation between business actors, homeowners, and local governments that preceded the deregulation of interest rates in 1980: in the context of high inflation and capped interest rates, each group vied for scarce capital resources. Rather than deciding who would receive capital for productive investment, home ownership, or public programs, policymakers lifted the cap on interest rates, thus reverting these allocation decisions back to the market.

When dealing with the fiscal crisis of the state, policymakers similarly feared that the U.S. government's need for deficit financing would "crowd out" private actors from credit markets, as Krippner's second case study shows. But high interest rates, defiantly maintained by Fed chairman Paul Volcker to combat inflation, did not lead to such a capital shortage. Instead, they drove foreign investors to U.S. credit markets, making the supply of capital seemingly endless. Krippner explains: "in the early 1980s, policymakers had not fully adjusted to thinking of the world in terms of a sea of open capital flows" (p. 95). Again, policymakers' assumptions about social reality no longer held up in a rapidly changing global economy.

In the final case study, Krippner focuses on the shifts in monetary policy that occurred in the 1980s and 1990s. The author explains how the secrecy with which the Fed would surround its plans to intervene in the money supply slowly began to backfire, as voters lost confidence that the state could solve inflation and related economic problems. Responding to calls from Congress for more transparency, Krippner writes, Fed chair Alan Greenspan began to announce his intention for intervention ahead of the actual policy shift. Here, Krippner's analysis fits well with studies on performativity in markets: policymakers found that investors would respond to these announcements and adjust their behavior accordingly. This served the laissez-faire policymakers well: the market corrected itself, while government intervention was rendered redundant. By transferring authority from state to the market, Krippner concludes, policymakers successfully depoliticized social conflict caused by inflation.

The author excels when explaining the limits to government officials' policymaking capacities: the pressures from conflicting societal demands and the constraints of antiquated worldviews. Here, the reader is reminded of the high stakes for the actors involved: homeowners unable to refinance their homes, municipal governments without the funds to improve local infrastructure, or business owners in need of investment capital. Although contemporary commentators are quick to fault neoliberal ideology for the deregulation of financial markets, Krippner shows that these policy shifts were much more complicated. Unfortunately, this compelling argument sometimes gets lost in the technicalities of financial policymaking. For readers without relevant background knowledge, it can be difficult to follow how exactly interest rate ceilings worked or what the federal funds market does. Here, the book would have benefited from a more accessible writing style and more explanation of the economics by the author.

Whereas Greta Krippner focuses on the political decisions that expanded the supply of capital, Louis Hyman's *Debtor Nation* zooms in on its demand by explaining how America has become a nation "in red ink." According to Hyman, "[America's] dependence on credit was the creation, intentional and unintentional, of the sometimes unlikely choices of government, business, and consumers" (p. 281). By recounting the history of a number of important financial innovations, such as the installment plan and the personal loan after World War I, the creation of a secondary mortgage market in 1938, and the credit card in the postwar period, Hyman shows how Americans of all walks of life have been able to enjoy higher standards of living, while entering a lifetime of indebtedness.

Hyman's book takes off after World War I, when consumer finance emerged in conjunction with the very symbol of American industrialism: the automobile. In the 1920s, American car manufacturers began to create financial subsidiaries, such as the General Motors Acceptance Corporation or Ford's Universal Credit Corporation, to provide credit to their dealers. While these financial subsidiaries gave car manufacturers the capital to sustain production year-round, independent finance companies copied their business model and began to offer credit to consumers to purchase manufactured goods, such as refrigerators or radios. Large manufacturers of consumer durables, such as General Electric or Westinghouse, followed suit. Consumer lending by these firms was made possible by two important financial innovations, the installment plan and the personal loan, allowing working-class customers to share in the spoils of the industrial economy.

The author's insights into the industrial roots of consumer finance are important, because they broaden the periodization scholars often use when studying finance capitalism: rather than considering finance capitalism as a phenomenon of the late twentieth century, Hyman shows how the industrial economy relied as much on financial products as it did on the five-dollar workday. Without the installment plan or the personal loan, working-class and middle-class consumers would not have had a safety net against the uncertainties of life, nor would they have been able to participate in the good life that industrial society promised. Although Hyman's comments on the subject are brief, his account challenges the standard narrative of Fordism. Yet the author stays relatively quiet on the need for consumer finance in relation to budding unionization or the nascent welfare state, two developments that would at first sight reduce the demand for credit. It would therefore have been interesting to read more about the causal connection between the advent of industrial society and consumer credit that Hyman presents here.

The following chapters deal with the growth of consumer finance after the Great Depression. Hyman details the creation of the Federal Housing Authority in 1934, tasked with stimulating the housing industry. To this end, the FHA created an insurance program for lenders: banks would make mortgages available at low interest rates, while the government would compensate the lender in case of default. The federal government thus played a critical role in the expansion of home ownership among the white middle class, as the program succeeded in overcoming banks' wariness about lending to the middle class. Once business actors discovered that consumers could in fact be "profitable sites of investment" (p. 96), however, they became difficult to constrain. When the federal government tried to restrict installment credit to curb World War II inflation a decade later, business actors proved undeterred: circumventing regulations, retailers simply created revolving credit plans that allowed customers to postpone full payment of their debt. Consumers, meanwhile, enjoyed the ease of charging their purchases without hassle or stigma: "Revolving credit allowed the performance of wealth for everyone," Hyman writes (p. 124).

In the second half of the book, Hyman shows us the other side of finance. Whereas debt ensured comfortable lifestyles for the suburban white middle class, other groups in society were consciously denied equal access to credit. Unlike Greta Krippner's book's powerful assumption that the scarcity of credit informed policymakers' decisions, here lenders acted on discriminatory assumptions when deciding on mortgage or credit card applications. In both cases, the actors involved applied pre-existing cultural norms to new financial practices. Hyman focuses in particular on the position of African Americans and white women who were deemed less creditworthy because of their race or gender. In jarring detail, the author describes the indignities endured by these groups for whom home ownership or mass consumption was either unattainable or came at a high price. To counter these injustices, social movement organizations like the Urban League and the National Organization for Women (NOW) began to make active claims on the state for fairer access to credit. The result was a series of pieces of legislation, such as the 1970 Fair Credit Reporting Act, that mandated objective credit evaluations.

Like Krippner, Hyman attributes a critical role to the federal government, whose intervention was needed for business actors to discover the profitability of lending to seemingly uncreditworthy groups. The author then recounts how consumer finance further developed in the final decades of the twentieth century. For a long time, it was–quite surprisingly–not a very profitable business, as Hyman explains: lenders initially preferred creditworthy customers, who dutifully paid off their outstanding balances, thus leaving little profit from interest income. The development of new risk models and securitization practices in the 1980s changed all this: financial institutions could lend to ever-riskier borrowers, often from low-income groups, without incurring the cost of default. A subprime mortgage market was created. Hyman therefore rightfully concludes that "the current financial crisis ... occurred not because capitalism failed, but because it succeeded" (p. 284).

Whereas Greta Krippner is very critical of policymakers, portraying their turn to finance as a way to avoid politics, Louis Hyman presents a more positive portrayal of the state's policymaking capacity. He informs the reader that many of the political interventions described above were ultimately rooted in good intentions. The author, for instance, reminds us that the mortgage-backed security was created by Fannie Mae to finance the revitalization of inner cities. It is hard to avoid a great sense of irony that comes with the power of hindsight. Not only did social movement struggles for inclusion in the political economy ultimately lead to new forms of dependency for previously marginalized groups, but the very financial innovations aimed at remedying credit discrimination contributed to the collapse of the financial system in 2007. More than anything, therefore, *Debtor Nation* shows us the Janus face of American finance.

The powerful attraction of finance is also a theme in Julia Ott's *When Wall Street Met Main Street.* Ott details the emergence of mass investment during the first two decades of the twentieth century–evidenced by the fact that around a quarter of all households engaged in the once elite activity of owning corporate stock by the time of the Great Depression (p. 2). This massive change in investment practices is all the more staggering, when we consider Americans' previous hostility towards finance. Prior to World War I, finance was considered speculative and a threat to the individual proprietorship of the productive classes (farmers, laborers, small business owners). Ott calls this set of ideas "proprietary democracy" or "a political-economic system in which virtuous, independent citizen-producers exercised free command of the dependents in their households" (p. 9). What made the rise of America's investor democracy possible, according to Ott, was the dissemination of a new theory of political economy, one that was centered on the figure of the investor and that made the ownership of financial assets compatible with long-standing American values like self-sovereignty and thrift.

Ott argues that the new investor-oriented theory of political economy did not emerge automatically out of the transition from a rural to an industrial economy, but rather was cultivated by policymakers, experts, and business people alike. In the first two chapters of her book, Ott details the clash between the Populist movement, proponents of the older ideal of proprietary democracy, and the financiers of the new industrial economy. In the chapters that follow, Ott focuses on the ideas that helped spread the ideology of financial ownership throughout American society: the federal government's "investor democracy," the corporate idea of a "shareholder democracy," and the notion of a "people's market" promoted by the New York Stock Exchange and other financial institutions. Using techniques from the new field of marketing, proponents utilized these ideas to convince ordinary Americans to buy war bonds, to enroll in employee and customer ownership plans, or to participate in investment trusts.

One important insight from Ott's book is that the motivations behind the different campaigns to expand bond and stock ownership were as much political as they were financial. This is most clearly shown in the first half of the book, which focuses on war bond drives during World War I. Ott describes how government officials feared that public disapproval over the war would feed labor unrest and other forms of radicalism, particularly among those who did not enjoy suffrage. Instead of funding the war through direct taxation or printing money, therefore, the Treasury Department created the War Savings Program and the Liberty Loans, through which individuals could purchase small-denomination bonds. The war bonds would not only end up funding 60 percent of the war, but also gave 34 million Americans a financial stake in the nation (pp. 54, 57). As Ott writes: "The War Loans' new ideal of investor democracy grounded citizenship in investment and expanded the categories of persons eligible" (p. 61).

The success of the war bond campaigns, Ott argues, can be attributed to the use of a powerful cultural rhetoric as well as modern techniques of dissemination. Campaigns by the War Loan Organization emphasized nationalism, citizenship, and economic democracy. Promotional materials called on Americans' civic duty to show patriotism and economic discipline by investing in the wartime effort. "A financial interest in the Government, large or small as it may be," one of Ott's sources states, "helps to make better citizens" (p. 61). To drive home its message, the War Loan Organization also counted on the numerous voluntary organizations in the United States to mobilize their members. In particular, Ott outlines the involvement of the many women's groups, who convened in churches, schools, or shopping sites, where they appealed to women's identities as household budgeters and patriots, "converting [them] into citizen-investors" (p. 88).

As in *Debtor Nation*, business followed the example of the federal government. Faced with their own political challenges in the late 1920s and early 1930s (labor unions, the regulatory state), business actors organized their own marketing campaigns to sell corporate stock to their employees and other members of the American public. Inspired by the ideas of the New Proprietorship, developed by Thomas Nixon Carter, they presented the corporation as a "commonwealth of shareholders" and the stock market "a mechanism for democratizing corporate wealth" (p. 151). Appealing to Americans' long-standing aversion to financial dependence, they promoted investment as an alternative to wage and welfare. One such business was the New York Stock Exchange, whose transformation from an elite institution at the turn of the century into a "people's market" by the late 1920s is the topic of several chapters in the book. Its 1928 film *The Nation's Market Place*, for instance, proclaimed: "By providing a free and open market for securities where all might buy and select with perfect equality, the New York Stock Exchange has played a tremendous part in the building of America" (p. 209). By taking credit for America's industrial prowess, it invited the average American to take part in its self-proclaimed financial democracy.

Investor-oriented theories of political economy, either justifying or criticizing the role of the state, thus contributed to the normalization of investment for the average American. Ott does a great job of contextualizing these new ideas, explaining how their masterminds responded to the political challenges of the day. Another strength of the book is that the author accounts for the different meanings these ideas held to the people to whom they were communicated and shows how groups at the grassroots made the official rhetoric compatible with their own political goals. Professional women's groups, for instance, saw the War Loan campaigns as an opportunity to "uplift" working-class and immigrant women, while suffragettes hoped that their involvement would lead to the right to vote. It is too bad that other grassroots actors, such as the workers who participated in the ESOPs of the 1920s, do not receive as much attention in the book. It would have been interesting to read in more detail whether their financial participation was indeed a sign of loyalty to their employer or if it represented something entirely different (for example, a wish for more control within the corporation, money for a better life).

Julia Ott's history of the New York Stock Exchange notwithstanding, it is not a coincidence that Wall Street is noticeably absent from the narratives presented here. These are the stories of policy experts, of opinion-makers, and of social activists. What these three books show is that finance involves a lot more than the allocation of capital through the market. On the one hand, these histories of finance reveal a *culture of aspiration*: the aspiration to be part of a nation of American citizens, to own a home in the suburbs, or, as was the case for the policymakers in *Capitalizing on Crisis*, to create a self-governing market outside the purview of the state. These ambitions were at once widely shared and deeply personal: they reflected the needs of a society in motion and the desires of the individuals within. At the same time, the history of finance reveals a project of *social order*, hiding potential sources of political unrest: the disenfranchisement of women, African Americans, and immigrants in the 1910s and 1920s, inner-city impoverishment in the 1960s, or declining wages in the late twentieth century. Finance thus made the public enjoyment of the good life possible, but rendered these persistent inequalities invisible by allowing for levels of consumption that Americans could not afford on wages alone.

Read together or independently, the three books under review provide a new and provocative take on the financial history of the twentieth-century United States. Readers who want to learn more about the historical underpinnings of the financial crisis will find these great reads and the books would fit well in an advanced undergraduate or graduate course. Moreover, because these books consider finance to be part of social and political history, they are also relevant for readers with interests in social movements, state-market relations, or political culture. Most importantly, they complicate our thinking about the available policy alternatives in the aftermath of the subprime mortgage crisis. Regulation of financial markets will clearly not solve the distributional conflicts that financialization effectively removed from the public sphere. Similarly, calls to revitalize a past of high wages and competitive manufacturing ignore the industrial roots of American financialization. Finally, we need to consider that throughout the twentieth century finance has had an appeal to large segments of the population that went far beyond the need for material goods. Any alternative model of American capitalism will therefore have to address our current need for long-term sustainability with an equally powerful social imaginary of inclusiveness and independence.

Note

[1]. U.S. Census Bureau, *Statistical Abstract of the United States 2012*, Table 1170, accessed February 16, 2013, `http://www.census.gov/compendia/statab/`; Federal Reserve, *Statistical Release June 2012*, Mortgage Debt Outstanding (1.54), accessed February 16, 2012, `http://www.`

federalreserve.gov/econresdata/releases/mortoutstand/mortoutstand20120630.htm; World Bank, *World Development Indicators*, accessed February 16, 2013, http://data.worldbank.org/data-catalog/world-development-indicators; U.S. Census Bureau, *Statistical Abstract of the United States 2012*, Table 1188.

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