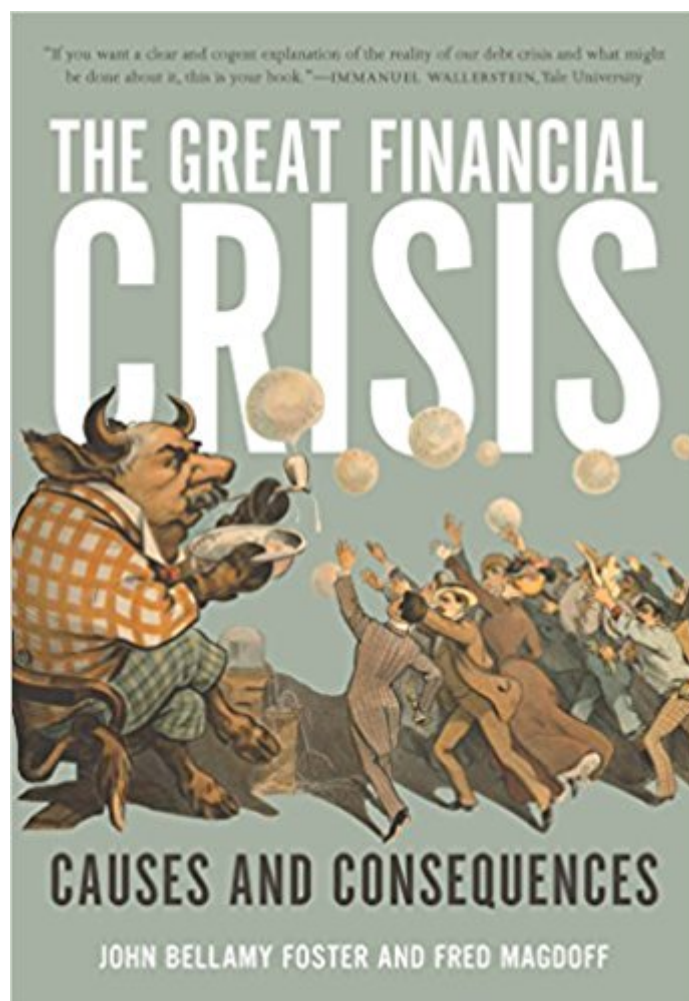


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# The Great Financial Crisis: Causes And Consequences



## Synopsis

In the fall of 2008, the United States was plunged into a financial crisis more severe than any since the Great Depression. As banks collapsed and the state scrambled to organize one of the largest transfers of wealth in history, many—including economists and financial experts—were shocked by the speed at which events unfolded. In this new book, John Bellamy Foster and Fred Magdoff offer a bold analysis of the financial meltdown, how it developed, and the implications for the future. They examine the specifics of the housing bubble and the credit crunch as well as situate current events within a broader crisis of monopoly-finance capitalism—one that has been gestating for several decades. It is the "real" productive economy's tendency toward stagnation, they argue, that creates a need for capital to find ways to profitably invest its surplus. But rather than invest in socially useful projects that would benefit the vast majority, capital has constructed a financialized "casino" economy that neglects social needs and, as has become increasingly clear, is fatally unstable. Written over a two-year period immediately prior to the onset of the crisis, this timely and illuminating book is necessary reading for all those who wish to understand the current situation, how we got here, and where we are heading.

## Book Information

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## Customer Reviews

In this timely and thorough analysis of the current financial crisis, Foster and Magdoff explore its roots and the radical changes that might be undertaken in response. With a foray into the Great Depression of the 1930s, they move to the present situation, born out of the housing bubble, the

wider explosion of debt and the problem of financialization of capital. They survey the long-term implications and the larger political-economic aspects of the crisis to propose that the crisis raises questions that are primarily political rather than economic. They suggest that society will eventually conclude that our fatally unstable political-economic structure should be replaced with one of social use rather than private gain – a more humane order geared to collective needs. This book makes a valuable contribution to the ongoing examination of our current debt crisis, one that deserves our full attention. (Apr.) Copyright © Reed Business Information, a division of Reed Elsevier Inc. All rights reserved.

"A must read! Here is an excellent guide to understanding the role debt overload and the stagnation of the real economy played in the recent crisis, in the tradition of Sweezy and Magdoff." – Michael Perelman, California State University, Chico, and author of *Railroading Economics*, *The Invention of Capitalism*, and *The Confiscation of American Prosperity*

"The Great Financial Crisis" by John Bellamy Foster and Fred Magdoff offers one of the most cogent and timely analyses of the current economic meltdown available in print. Composed of a series of articles first published in *Monthly Review* magazine between May 2006 and December 2008, with additional material including a Preface, Introduction and References, the authors amply demonstrate the usefulness of the Marxist tradition in explaining the root causes of this latest crisis of capitalism. Importantly, the authors rescue economics from the bondage of abstraction and science by showing us that power and politics define the dynamics of the capitalist system, making the crucial point that it is the working class who both supplies the source of wealth and bears the greatest burden in times of economic distress. Drawing heavily on the groundbreaking work of Paul Sweezy and Harry Magdoff, the authors contend that stagnation (slow growth and high unemployment) is the normal state of affairs in mature economies where monopoly capital has come to control the means of production. High levels of profitability has the effect of diminishing the purchasing power of the working class, leading to decreased investment in real productive ventures and increased financial speculation. At some point, finance is almost completely decoupled from the real economy and becomes a driving force on its own, leading to ever increasing indebtedness, inequality and systemic instability. Foster and Magdoff convincingly demonstrate the prescience of Sweezy and Magdoff's work, which was written in the 1960's, arguing that today we are witnessing the unfolding of precisely the kind of crisis that had been predicted. We also come to understand how the government's response thus far has remained insufficient to the task inasmuch as policy

decisions are made by key decision makers such as Ben Bernanke, who remains wedded to neoliberal orthodoxy. In that light, the administration's attempts to bailout the private sector with public money can be seen as a twisted yet peculiarly logical response by the powerful to fix a broken system that nonetheless heaps further insult upon an overexploited working class. Through their thoughtful writing and analysis, Foster and Magdoff help us recognize the real problem as one of financial insolvency wrought by a system that serves only to satiate the wealthy, and implores the rest of us to demand a more sustainable and just system of economics that privileges people before profits. I highly recommend this outstanding book to everyone.

No need to repeat salient features pointed out by others, except to say the book is well worth the read. There is, however, an unmentioned point worth noting. The authors frequently allude to the "real economy", which they equate with the manufacturing sector. Intuitively, that makes sense since it's goods production that must satisfy our everyday material needs. The financial sector, on the other hand, is posited as dependent upon that "real" economy, to the extent that the financial sector cannot expand indefinitely without some corresponding degree of productive growth. That too makes intuitive sense since manufacture is a chief outlet for profitable financial investment. However, unless I missed something, the book simply posits that the financial sector cannot expand indefinitely apart from growth in the real economy. That may satisfy intuitively, but intuition does not rise to the level of persuasive proof. Yet, this dependent relation is a key assumption behind the authors' assessment of the current crisis. Now it's probably not fair to require an anthology of Monthly Review articles to elucidate what's likely a pretty complex dependency theory. Nonetheless, some such confirmation is needed in order--I would think--to refute the monetarist approach, for one, to the meltdown. In the excellent Introduction, Hyman Minski is characterized as grappling with this issue by arguing that as the "lender of last resort", the government is in a race during binge periods to prop up financial bubbles before they collapse into a risky deflationary spiral. However, as an admitted lay-person, I see nothing in the book that demonstrates the impossibility of the government continuing this process indefinitely. Of course, the answer may lie with what happens in the real economy, depending on developments there. But even assuming no growth in the productive part, would an ever-expanding financial bubble be demonstrably impossible? Seems to me an important but unresolved consideration. Anyway, the articles collected over a two-year period have proven remarkably prescient, and though the format leads to noticeable repetition, the work again shows how the best insights come from the margins and not from the mainstream.

Finally a review from an anti-capitalist viewpoint. Another great thing is that as a compilation of articles previously written (with some new stuff) these guys really saw the crisis before it unfolded. On the downside there were quite a few paragraphs duplicated from previous articles as reference to readers of the current article. Overall from a leftist (me) who doesn't understand the complicated in & outs of modern day economics this book was great. As a worker I understand the rampant exploitation but not the way the system functions

bought the cheapest one, but there is a label on the book.

It's a dry read but has a lot of worthwhile information that is important to understanding the 2008 financial crisis.

There are some interesting parts to this book, but it was obviously written by liberals. I'm a democrat but I want to hear the views from both sides to draw my own conclusions from differing perspectives.

Very excellent discussion with abundant and well-presented data. Distracting, however, is the authors' insistence (in several chapter ends) that the only proper fix is to recast the system into socialism (abundant government control and wealth redistribution). At least they offer recommendations.

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