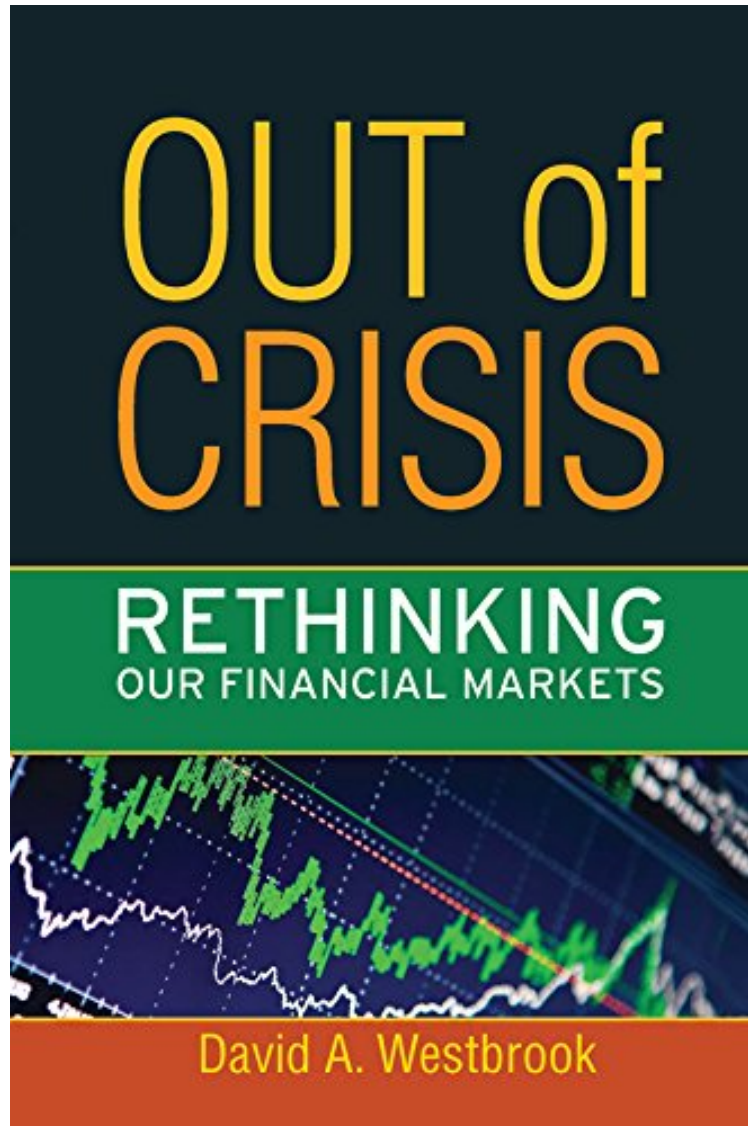


[Free pdf] Out of Crisis: Rethinking Our Financial Markets (Great Barrington Books)

## Out of Crisis: Rethinking Our Financial Markets (Great Barrington Books)

*David A. Westbrook*

*ebooks / Download PDF / \*ePub / DOC / audiobook*



[Download](#)

[Read Online](#)

#4045192 in eBooks 2015-12-03 2015-12-03 File Name: B018W7RB8G | File size: 48.Mb

**David A. Westbrook : Out of Crisis: Rethinking Our Financial Markets (Great Barrington Books)** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Out of Crisis: Rethinking Our Financial Markets (Great Barrington Books):

2 of 3 people found the following review helpful. Seeking a Revolution in Discourse By Nicholas A. Krafft I posted this review at my blog, [...] Some other useful reviews can be found here: [...] In one sense, this book is very modest in its aims. In the introduction, Westbrook admits that, "it is sociologically and psychologically implausible that our

administrative agencies will rethink our financial markets at all well and except under extraordinary circumstances." However, as the title implies, in order to get out of the crisis, we must move ourselves from the limited framework of thought that has dominated policy for decades. And, of course, we are in extraordinary circumstances. Even so, introducing a new paradigm of thought, even while acknowledging that it may fall on deaf or corrupted ears, is an ambitious undertaking. Against the current backdrop, Westbrook's rethinking seems quite necessary. Indeed, he argues that the crisis represents the birth pains of a transition to a new era of financial capitalism (replacing the era of portfolio management, which spanned three decades). Entering this era with anything less than a new framework of thought will leave policymakers two or three steps behind. As Westbrook argues, even our grammar and language for markets needs to be reshaped. So, what are the assumptions with which we move forward in this bold rethinking? First, Westbrook seeks to dispel the somewhat irrelevant bifurcation between governments and markets. This key move is related to another predisposition, the idea the financial markets are intensely social entities. Third, related to this, Westbrook wants us to understand finance from a legal perspective as a series of contracts, rather than a set of property rights. Finally, Westbrook seeks to reemphasize the importance of uncertainty (sharply distinguished from risk) in how our financial markets operate. Early on, he dispels with what he terms "melodramatic narratives" of the crisis, ranging from securitization to monetary policy, all of which are intellectually conservative because they operate within the same structure of thought that led to the crisis. Not among their number is the exploitation-inequality-uneven demand explanation that is common in Marxian and institutionalist circles, and that I've trumpeted on this blog on many occasions. In many ways, Westbrook's argument is tangential to this narrative, as he is primarily probing the financial crisis, which is one (albeit major) part of the economic crisis. As a law professor, it doesn't seem to strike him as to whether his narrative of the broken framework is sufficient for a broad economic crisis; however, this wrinkle doesn't make his argument any less relevant. The path that the financial sector has taken in recent decades is broadly indicative of an attempt to move from uncertainty to risk, inserting knowledge as the previously missing link. As Westbrook argues, however, the contractual nature of financial instruments weakens the ability to execute knowledge in a way that constructs the more simple risk. The failure to see this disconnect has led to the false allure of diversification, in which risk is managed by spreading resources over a number of purportedly independent investments. Again, going back to contracts, Westbrook argues that diversification, or "portfolio management," necessarily reduces transparency. This story echoes the mainstream account of subprime-based CDOs, but builds on it by arguing that a whole range of securities and derivatives can fall prey, and the underlying causes run deeper than a shock to housing prices or the like. So where has the government been in all of this? Westbrook argues that the zero-sum conception of the government-market relationship has "legitimated" bureaucratic irresponsibility. He faults the free-market ideologues for insisting that market priorities supersede societal goals or human ramifications. However, he also cautions that much is unknowable for regulators, who thus should seek performance over design, so as to stay ahead of the curve. Markets must be approached as they are: existing in a social space. It is at this point that Westbrook makes one of his most important contributions, urging a reshaping of our metaphors and grammar for markets, so that they don't replicate the false dichotomy between government and markets. His most useful metaphor, I think, is "tensegrity": a structure in which elements pull against each other, but the structure remains as long as the links are tight- the structure is "integrated by tension." The tension, in this metaphor, is credit, underscoring the notion that credit is the lifeblood of the modern financial system. He also uses ecology as a metaphor, and says that we should think about markets not as a jungle but as a garden, a place "of both planning and necessity." Where does this intellectual move lead us? First of all, we shift our focus to systemic risk, as Westbrook argues, acknowledging that diversification is pretty much meaningless for our situation. His hope is that systemic risk "become a concept...that broadly organizes thought." There will always be structural weaknesses in a regulatory regime; however, basically misguided policy puts us in a far more precarious position. Confronting uncertainty as a certain reality is a difficult-financially and politically-but necessary consequence of acknowledging systemic risk. Thus, while systemic risk appears to be moving to the forefront in intellectual discussions- I say this mainly on the basis of VoxEU articles in the last year- the discourse is not occurring in the radical (i.e. to the roots) way that Westbrook encourages. We also must carefully consider the risk of constructing what Westbrook calls a "courtier economy," in which the powerful use their money and influence to capture the (de)regulatory process. He sees the construction of this class as one of the first steps toward a protectionist and militarized world, as a courtier class inevitably will push national policies that engender international tension. At first glance, Westbrook's argument seems to push for a "balanced" approach to the economy in which more socially-embedded markets gain more influence. However, there is no blueprint for what a socially-embedded market looks like. We certainly know what it doesn't look like; a Polanyian view of the last few decades easily exposes the failures of the market-utopian drive. However, there are no assurances that the markets of the future will actually be regulated as if they are socially constituted. Are we to trust that this rethinking will help us get things right next time, or that reconceived markets are even the right way forward? Should it be the case that they are, I hope they are conceived from Westbrook's framework: that class tensions, uncertainty, and complexity are confronted head-on; that bureaucrats acknowledge their role and consider systemic issues in their designs; that we have more garden and less jungle. In an e-mail, Westbrook points out that he hopes this book serves as a political intervention in our society. The measure of its

success as such will inevitably be whether we begin to hear the words "social" and "markets" in the same sentence from regulators, and whether we observe a change in our metaphors and an acknowledgement of contradictions. Understanding this book requires that we make the leap in accepting the constitutive role that discourse has. This pill is easier to swallow for intellectuals than for the quants and paper-pushers, whose language has been handed to them, their jargon ingrained. Westbrook is aware of these difficulties, yet one cannot blame him for seeking something of a revolution in thought.

0 of 1 people found the following review helpful. Go to Wall Street, touch the bull and pray

By Charles Reuter

I got this book after a couple of others. I needed to understand the financial mess. This was one of the most illuminating books I have read for a looong tiime.... Here and there, I stopped, pondered, read again, stopped, took time to reflect (see below some of my thoughts if you are interested). Like some episodic light in the darkness of everything that we won't understand... despite the millions of pages that are produced...and the thousands that I've read... since I got back to school after a decade in business.

Some parts of the book are hard to get? Right. You do not travel from Main Street to Wall Street without a cost. The author is in academia? Right, he is in business too, and he is the dedicated citizen of a great country. This is not an easy read? Right, if you are not used to read a lot, say a "strong" (I mean few images) newspaper, in full, every day of the year, you may get lost somewhere. But there are maps all over the place. So? Try... Skip! Re-read. In any case, don't take it for your next flight across the U.S.A. or for a bus-drive across your state. Take a magazine, enjoy the steward(ess) or the TV, take a nap. Understanding Wall Street is not easy when you live on Main Street. Sometimes you just need to. Right? Like right now. And you have to start somewhere. Where? Take a political party card? Go straight for a therapy (like bankers in London last year)? Visit New-York and touch Wall Street's bull? Go back to school (like me, on the cheap?)? Or buy David Westbrook's book? My experience: get back to school and you'll need to buy David Westbrook's book anyway. So start there, and be prepared. Finance is not an easy stuff. My feeling is that David Westbrook makes its depth as accessible as possible. This it is a courageous book that deserves attention. Looking for concrete and quick solution? If there were some, I guess there would be no real need for THIS book, nor for any other of that kind, for that matter. The solutions would be in place since 87, or 2001, or what? This is the kind of book that guys in one party will describe as biased and guys in the other party will describe as partisan. Some Americans will say it is socialist and dangerous, some Frenchees or Europeans will say is post-liberal and dangerous. That's why you need to read the book rather than take a party-card or close your eye on the danger. In fact, here is my advice: 1- buy the book, 2- take a bus to New-York City and .... read the book underway. 3- Go to Wall Street 4- Touch the bull (you never know). 5- Pray that we get courageous politicians before the next crash. Every crash gets its forgotten casualties that never recover. Best read

Chuck\*\*\*\*\*ILLUSTRATING\*\*\*\*\* some of my thoughts..... "Here and there, I stopped, pondered, read again, stopped, took time to reflect" ...\*\*\*\*\* some of my thoughts\*\*\*\*\*ILLUSTRATING

Take for instance the pages on efficiency. Regarding the financial markets: what are the roots of the "financial science"? Is it like physics? Or is it more like politics or management? On what type of relations between things, between people, between things and people does it rest? Physical laws of causality? Opportunism, calculation, cheating, (and lobbying)? This is important to understand on what financial simulation rests, and why we get a crack every other 8 to 10 years or so. And then, when I stopped, and when I pondered, I started to reflect about my decade in business... how many useless things had I done because it (I) was efficient? It was the "efficiency of the moment", right? Hard on me, hard on colleagues, hard on my family... but efficient. In fact, with the benefit of time, I think some of these things were completely lost, but for the pay I got (not bad, hey? ...I spent it anyway, I was a "young-efficient" fool). Another example about law, contract and finance. Finance really rests on contracts (thing about your mortgage). But contracts are not the law. Simple, right, but think twice. There is "risk reduction" in well-designed contracts, and this is what every financial agent is aiming for. But what about the law itself? Sure, you always know when trouble starts, you never know when it ends, or how it ends. And if there is a crack, then what you thought where iron-proof contracts turn out as unfavorable trials. See for the mortgage. Everything was in the contract, just not that house prices would go down for more than 13 months in a row. This is so simple, but so deep. This is deep because through this lens, we revisit the pillars of modern finance, "systemic risk" and "diversification". So Westbrook says that diversification is like "putting all your eggs in different baskets". Ok. Then, stop. Ponder, re-read.... Who is going to drive the truck to the market with all those baskets? Say the driver has drunk one glass too much, he is realllly careful, but he gets a "non-responsible" accident. What happens next? You have "diversified", or haven't you? You don't know what happens next because you need the law to find out. The things you know, 1) you have put all your eggs in the driver (lawyer, banker)'s hands 2) you have no more egg and plenty of dirty baskets 3) you have a lawyer to entertain and 4) a trial to attend to.

0 of 1 people found the following review helpful. A call for a new way of thinking about fiscal policy and financial markets

By A.J. Cave [Full version of this review appeared on WAIS: World Association of International Studies, on 14 March 2010.]

Out of Crisis: Rethinking our Financial Markets is an erudite and scholarly account of the causes of the current financial crisis, a critique of the U.S. [and global] fiscal policies, and a call for a new way of thinking about fiscal policy and financial markets. Not just what happened and who did it and why, but what have we learned from the crisis? Or should have learned?

Westbrook's book, while witty and insightful, is a dense, detailed and demanding narrative, arguably written for a highly sophisticated and intellectual reader with a

fairly substantial knowledge and interest in law, finance, social sciences, economics and politics. I would imagine that a casual reader with a more immediate interest in a set of easy to follow cookbook recipes for "how to fix" the global financial crisis might find the book a little heavy on academics and not enough on practical. Usual suspects from A to Z [not in alphabetical order]: financial risk management, securitization of bank loans, diversification and management of portfolios, subprime mortgages, toxic assets, and efficiency of financial markets to corporate greed, crisis of confidence, chaos and complexity, and Chicago School Economics are discussed, with main culpability laid squarely at the revolving doors of financial ideology and fiscal policy. China, ecosystems, networks, terrorists and the political "left" and "right" are thrown in for good measure. There are also gardens, tensesgrity and courtier economy - all to provide an alternative vivid imagery to avoid using the old clichés of neoclassical economics when thinking about modern financial markets. The single key take away from Westbrook's book, in my view, is his assertion that the current financial crisis is not just an anomaly where general expectation is a return, preferably sooner than later, to some perceived financial "normality", but a clear sign that "the old order of things no longer exists and we are witnessing the birth of a new state of affairs". Ideology of "Finance" has given us too much confidence to leverage and capitalize virtually any assets through financial engineering. Current generation of fiscal policy thinkers who are trained in the "old, now largely discredited paradigm" - really don't know how to tackle the multitude of problems before them. We are not just in the midst of a financial crisis, but an economic, political and constitutional crisis as well. Financial policy elites need a new way of looking at the world, complete with a brand new language. Faced with an unprecedented financial markets breakdown, governments around the globe moved aggressively and decisively to address the global financial crisis by rolling out massive monetary packages to prevent a total global economic collapse. But has "doing something" been matched by a corresponding "thinking" infrastructure? Have the collective "we" done the right things? Out of Crisis is certainly thought provoking on many levels: How are we to think about the fiscal policy? How shall we teach finance? Or more fundamentally, what is finance? It behooves us to at least consider learning from the current crisis and develop a more realistic and perhaps more humane understanding of our financial markets.

Former Federal Reserve chair Greenspan recently said that the risk management paradigm is broken; thus our understanding of financial regulation no longer makes sense. More generally, the current financial crisis obliges us to rethink the relationships among "financial markets" and "governments." In Out of Crisis financial analyst David Westbrook illuminates the intellectual, business, and policy errors that have led us into the present morass. Through a vivid legal and political analysis he shows how the ideologies of the right and left have distorted financial thinking and policy. Learning from these errors, the book sketches the emergence of a new understanding of risk management and bureaucratic regulation. Out of Crisis begins the tasks of rethinking the structures that constitute financial markets and exploring how such structures may be strengthened. Taking responsibility for the markets we build to do so much of our society's work, we may yet become mature capitalists.

“The recent crisis involved an extraordinary sequence of financial market failures. Too many economists had assumed that that could never happen, partly because they had not appreciated the wider social, legal, and institutional context which normally enables such markets to operate. In this beautifully written and gripping book, David Westbrook employs wide-ranging social science skills to make us aware of this wider context, and thereby to see markets, and their occasional failures, in a new light. I found it fascinating, original and illuminating.” Charles Goodhart is an expert in money and banking, with a long career in the Bank of England, on the UK Monetary Policy Committee, and at the London School of Economics and Political Science “Professor Westbrook’s fascinating new book is not just an exegesis of the recent financial crisis it is a compelling and entertaining diatribe against some of the sacred cows of finance, among them the notions that markets are presumed efficient, corporations can self-regulate, sophistication matters, risk management reduces risk, and securities regulation makes markets transparent. Westbrook takes all of these ideas out back behind their once-sturdy intellectual shed and pumps them full of lead. He then provides a regulatory roadmap that will be an important part of the debate about the future of market capitalism.” Frank Partnoy, Professor of Law at the University of San Diego and author of Infectious Greed: How Deceit and Risk Corrupted the Financial Markets “Out of Crisis: Rethinking our Financial Markets provides clear elucidation on the shaky foundations upon which our financial system was built. . . . Westbrook points to the need for a rethink of finance and suggests in this respect a better interdisciplinary dialogue between law and finance.” International Finance About the Author David A. Westbrook regularly speaks around the world to governments and international organizations (including NATO) as well as academics across many disciplines. His books include Navigators of the Contemporary: Why Ethnography Matters (2008) and Out of Crisis: Rethinking Our Financial Markets (Paradigm 2009). Westbrook is Floyd H. and Hilda L. Hurst Faculty Scholar and Professor of Law at the University of Buffalo, State University of New York.