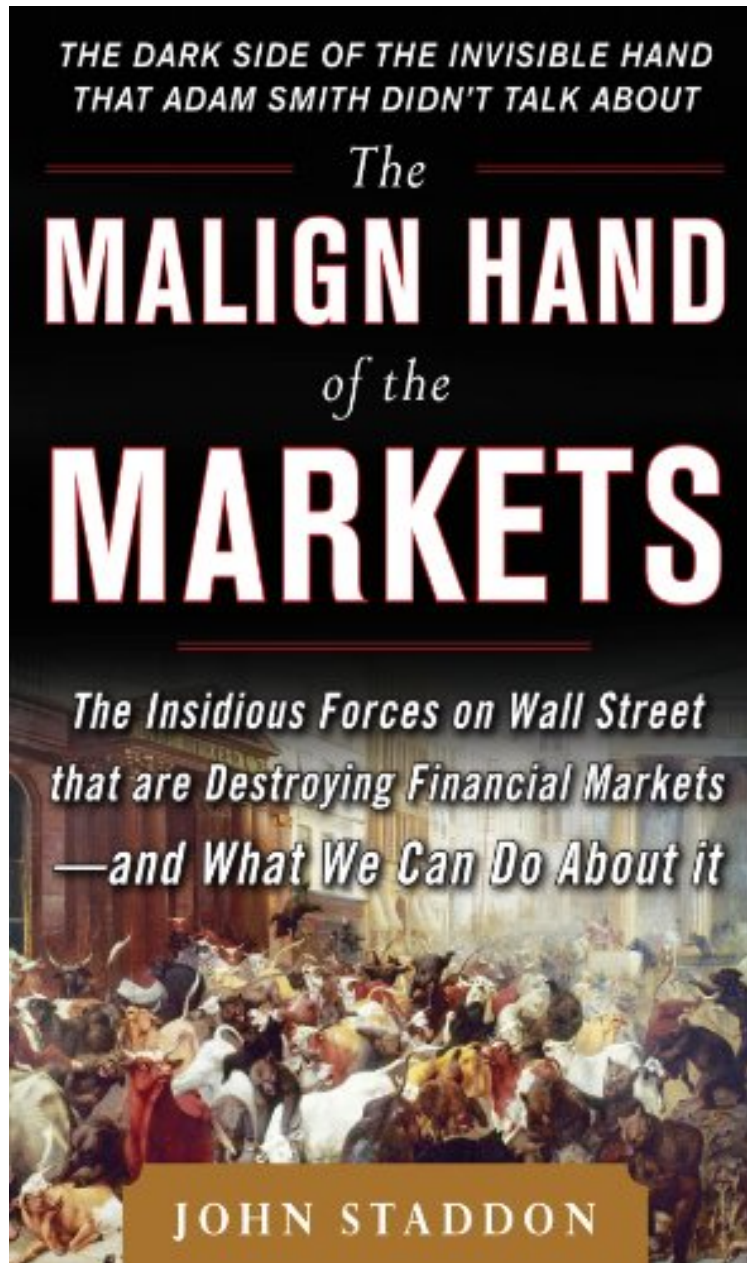


[E-BOOK] The Malign Hand of the Markets: The Insidious Forces on Wall Street that are Destroying Financial Markets ndash; and What We Can Do About it

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John Staddon

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John Staddon : The Malign Hand of the Markets: The Insidious Forces on Wall Street that are Destroying Financial Markets ndash; and What We Can Do About it before purchasing it in order to gage whether or not it would be worth my time, and all praised *The Malign Hand of the Markets: The Insidious Forces on Wall Street that are Destroying Financial Markets ndash; and What We Can Do About it*:

13 of 13 people found the following review helpful. Another Book Review from the Aleph BlogBy David MerkelWhen I first saw the book, and read the introduction, my heart sank and I said to myself, "I doubt I will like this one." I was wrong, very wrong, and liked the book more and more as I read it. The author is a professor of Psychology, Biology and Neurobiology, and is writing about economics. Those who have read me for some time know that I favor ecological analogies to explain economics, rather than the pseudo-physics that most neoclassical economists employ. I am beginning to think that non-economists have a better chance of understanding economics than most economists do, because they are free from the indoctrination that comes in the early economics classes where they teach you to assume away all reality, and assume that all men are maximizers of utility or profits, and that the world is radically simple, when it is really very messy. To the BookSorry to be verbose, but I found the author's approach to be refreshing. Men are economically rational, but what do we mean by rational? To some, being rational means imitating what seems good. "My neighbor is making lots of money speculating in real estate, I will do this also." Or rationality can mean something higher, "Real Estate prices are getting far beyond the prices that rentals could justify, I think I will sell my house and rent." The difference is the degree of analysis, and the willingness to think about the system as a whole. The book also highlights why free markets and democracy do not necessarily go together. There is pressure from the moneyed to affect the democratic process, and there is pressure from the less-well-off to vote money to themselves from the public purse. The book takes on the concept of economic efficiency, and shows that it leads to instability, as I have argued. Stable economic systems have slack. Stable systems do not optimize to the hilt. He describes the process where more and more loans were provided to the housing market, leading to a bubble. The bubble involved some sideshows, like CDOs, where Collateralized Debt Obligation buyers provided cheap capital that purchased risky pieces of residential mortgage loans. Economists like to talk about equilibrium, because that allows them to publish their complex math papers, but economies are big on variation, things are far more volatile than theory can admit. He takes a dim view of central banking but does not see how we can get rid of it. The politics are too strong, and the aversion to gold too great. He lays most of the blame for the bubble and bust at the feet of the Fed, which is right. He finds Keynes to be a bright guy but with many unrealistic assumptions, and too much aggregation. The simplification of the economy is too great, and the models don't work. Unlike many other books, he offers solutions, and I think they are reasonable. He inveighs against insurance where the risk is voluntarily takes on. We should not backstop voluntary risks, nor should we allow people to speculate on the losses of others, as I have argued elsewhere. He also argues that the Dodd-Frank bill will largely be ineffective because it does not set rules. You can have rules or scrutiny. We have used scrutiny in the past for financial regulation and it has not worked, because the regulators were wimps. Over the last 30 years, they have mostly been wimps. Rules have value, and insurance regulation has been more rules-based, which helps to account for its success. Principles-based approaches allow a minority to bend the principles, leading to financial failure. Particularly the Fed has been lax in financial oversight, as they are the overall regulator, and they have not been tough on the regulators that they oversee. Naive faith in economic efficiency leads many to neglect the need to regulate banks tightly. It is far better to set rules that provide negative feedback to banks that are taking too much risk, and negative feedback to those who borrow from or lend to other banks, which increases systemic risk. At the end, he offers four rules that I will summarize: Limit the monetary policy discretion of the Fed. (Yes!) No bailouts. Insurance products that have the possibility of positive feedback should be banned. Investment Banks should be partnerships, and commercial banks should be limited from investment banking business. I am in hearty agreement with all of this. He adds one further proposal that suggests taxing investment banks on the riskiness of their books; if that can be properly achieved that is a worthy idea. QuibblesNone. Great book. Who would benefit from this book: Anyone who wants to understand economics and the crisis better would benefit from this book. 5 of 6 people found the following review helpful. Though ProvokingBy Mark Parsonson "[T]here are known knowns; there are things we know that we know. There are known unknowns; that is to say there are things that, we now know we don't know. But there are also unknown unknowns - there are things we do not know, we don't know." --United States Secretary of Defense, Donald Rumsfeld This quote, which the book references, is a neat summation of the layers of risks that exist within the financial system. Unfortunately, many of the systems, regulations and models are premised on the first layer, with perhaps little consideration given to the second and third tiers. The instability this can create, as we have seen in the past, has great consequences. I will admit that at first I thought that this subject has been well covered, which it has. After reading the first chapter, I wasn't entirely convinced that this book would offer much more on the subject beyond a collection of loose thoughts. After persevering I will admit to being proven wrong. The book is in fact a comprehensive tour of the many aspects that influence financial markets - a diverse set as most readers can imagine. As such, a broad perspective is essential to

uncovering the many issues that need to be addressed to produce a more sustainable and fair system. While there is perhaps no ultimate solution, readers would do well to consider that this book provides a thought provoking assessment of the elements that need to be reconsidered. 5 of 6 people found the following review helpful. Very scholarly, very original, very scary. By Eric Sedensky. When a professor of neurobiology writes a book about economics and financial policy and governance, it seems easy to pass it off as a cross-discipline, "make money from an obvious situation" kind of stunt. But I found this book extremely insightful, carefully written, highly detailed, and probably accurate. It points out that there is more to economics than meets the eye and that when human behavior is involved, financial markets are at risk from other forces besides supply, demand, interest rates and the like. Your money is at risk because ignorance creates gaps in knowledge, gaps in knowledge cause specious thinking, and specious thinking causes illogical behavior. This leads to lawmakers to pass regulations that actually work to make a situation worse, not better. Can this be prevented? The author thinks so, but I think not nearly enough people are reading this kind of book (or writing others like it) to change the economic policies of the world much. That's what's scary. This is an interesting and original book. Not everyone will agree with what it posits, but there are enough graphs, illustrations, and logical arguments to convince most free-thinking readers. I don't hold out much hope for positive change, but I'm glad I read this book. At least I can steer myself clear of the malign hand, even if the government won't do it for me. NOTE: I received a gratis copy from the publisher for purposes of this review.

WHAT'S THE MATTER WITH WALL STREET? And How Do We Fix It? Even after the global financial meltdown of 2008, economists have clung to Adam Smith's "Invisible Hand" theory of an always self-regulating market that benefits private and public interests alike. But Duke University professor John Staddon is here to tell that there's also another, darker force at work on Wall Street—the "Malign Hand" that guides all human interactions, including our finances. Combining psychology, behavioral economics, and other sciences, Staddon's explosive new theory reveals the underlying principles behind the economic crisis, exposing the invisible mechanisms that drive our markets today. You'll learn how we can: Prevent market bubbles from building Distinguish voluntary from involuntary market risk and regulate them differently Simplify and restore Glass-Steagall Understand market mechanisms through Darwinian dynamics Moderate boom and bust cycles and make financial markets sustainable Using economic theory, global market trends, and psychological research, Staddon's electrifying book is both analytical and prescriptive—with a number of possible solutions to our most pressing economic concerns. You'll learn about the wrong assumptions that underlie our present system, basic rules for managing risk, and the real reasons behind the market's greatest successes and biggest disasters. You'll hear surprising insights into the delicate relationship between Wall Street and Washington—with assessments of the bailouts, the Dodd-Frank bill, and other attempts at financial regulation. Best of all, you'll discover realistic solutions that can stop the boom-and-bust cycle once and for all. Compelling, controversial, and remarkably thorough, *The Malign Hand of the Markets* will change the way we plan our future, manage our finances, and build our fortunes.

From the Back Cover WHAT'S THE MATTER WITH WALL STREET? And How Do We Fix It? If you subscribe to Adam Smith's "Invisible Hand" theory—that private business interest always serves the public good—you might want to think again. In this bombshell of a book, Duke University professor John Staddon argues that a darker, more powerful "Malign Hand" has been driving our economy into an endless boom-and-bust cycle that is unhealthy, unstable, and undeniably dangerous. This eye-opening book reveals: Why most of our assumptions about Wall Street are wrong How the financial sector profited from the government bailouts What most people don't understand about home ownership Why the Dodd-Frank regulatory bill won't work How to prevent another market crash Sure to provoke controversy on Wall Street, in Washington, and across the globe, Staddon's fascinating approach to economic theory not only analyzes our current problems in a bold new light, but offers real solutions as well. By combining a range of disciplines—evolutionary biology, psychology, behavioral economics, and moral philosophy—Staddon's book is required reading for anyone interested in the future of finance. About the Author John Staddon is a James B. Duke Professor of Psychology, and Professor of Biology and Neurobiology, Emeritus, at Duke University. He has worked in many universities around the world, including MIT, Oxford, and the University of Toronto. He is the author of *The New Behaviorism* and *Adaptive Dynamics*, among other books.