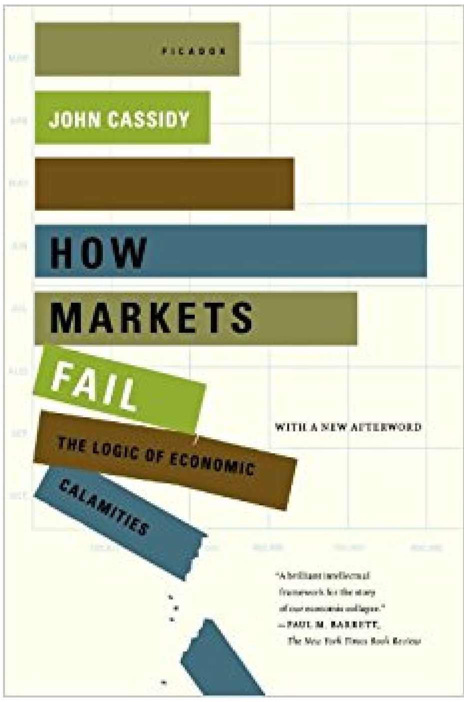
How Markets Fail: The Logic Of Economic Calamities



Synopsis

For fifty years, economists have been developing elegant theories or how markets facilitate innovation, create wealth, and allocate society’s resources efficiently. But what about when they fail, when they lead us to stock market bubbles, glaring inequality, polluted rivers, and credit crunches? In How Markets Fail, John Cassidy describes the rising influence of "utopian economies"Ã¢â ¬â ¢the thinking that is blind to how real people act and that denies the many ways an unregulated free market can bring on disaster. Combining on-the-ground reporting and clear explanations of economic theories Cassidy warns that in today’s economic crisis, following old orthodoxies isn’t just misguidedÃ¢â ¬â ¢it’s downright dangerous.

Book Information

Paperback: 416 pages

Publisher: Picador; Reprint edition (November 23, 2010)

Language: English

ISBN-10: 0312430043

ISBN-13: 978-0312430047

Product Dimensions: 5.6 x 0.3 inches

Shipping Weight: 1.3 pounds (View shipping rates and policies)

Average Customer Review: 4.2 out of 5 stars 91 customer reviews

Best Sellers Rank: #32,642 in Books (See Top 100 in Books) #21 inÃ Â Books > Business & Money > Processes & Infrastructure > Government & Business #27 inÃ Â Books > Business & Money > Economics > Money & Monetary Policy #279 inÃ Â Books > Business & Money > Education & Reference

Customer Reviews

Market disastersÃ¢â ¬â •and the cycle of delusions responsibleÃ¢â ¬â •receive lively, engaging analysis by Cassidy (Dot.con), a journalist at the New Yorker. The author focuses primarily on the rise and fall of free market ideology and the mostly unrealistic ideal of a self-correcting marketplace. An excellent comprehensive history of the economic thought that led to this kind of utopian economics provides a refresher course in Adam Smith, Friedrich August von Hayek, Kenneth Arrow and Hyman Minsky. Both a narrative and a call to arms, the book provides an intellectual and historical context for the string of denial and bad decisions that led to the disastrous illusion of harmony, the lure of real estate and the Great Crunch of 2008. Using psychology and behavioral economics, Cassidy presents an excellent argument that the market is not in fact self-correcting,

and that only a return to reality-based economicsÃ¢â ¬â •and a reform-minded move to shove Wall Street in that directionÃ¢â ¬â •can pull us out of the mess in which we've found ourselves. (Nov.)
--This text refers to an out of print or unavailable edition of this title.

Cassidy, economist and journalist, launches a theoretical attack on Milton Friedman and the Chicago schoolÃ¢â ¬â„¢s free market concepts, calling them Utopian Economics, which Cassidy explains in part one. The author describes his replacement theories in part two, which give market failure a central role, calling them Reality-Based Economics. Drawing on both approaches, in part three he explains in detail his analysis of the financial crisis of 2007Ã¢â ¬â œ2009, indicating that the subprime boom was a failure of capitalism and the financial crisis was the consequence on decisions made by private firms under deregulation. He concludes with suggestions including banks that create and distribute mortgage securities should be forced to keep approximately one-fifth on their books and federal regulators should have oversight responsibility for mortgage bankers and lenders. Everyone will not agree with the authorÃ¢â ¬â„¢s theories, and although he denies this is a textbook, it will stir controversy within and outside the classroom. However, the challenging material in this book will limit its appeal to many library patrons. --Mary Whaley --This text refers to an out of print or unavailable edition of this title.

This was a thoroughly engaging read that clearly explained the many factors that led to the financial collapse.While I would recommend reading with easy access to the internet to look up unfamiliar terms, for the most part the book explains how things like Credit Default Swaps and Collateralized Mortgage Securities work without going into the byzantine details of exactly how these products are created and marketed, since only general concepts of how they work are required for understanding. However, if you are curious are all the acronyms that are tossed around when dealing with the financial collapse, this is a good place to start.Book is split up into three parts: a brief overview of the historical underpinnings of free market economics, an academic critique of some of some of the assumptions about markets, and a detailed set up of how the financial collapse was in part caused by the prevailing view of the market which ignored earlier academic critiques.

This author is very liberal, the entire premise of the book is a call for an increase in government intervention in U.S. economy. It is a very interesting book, I had to read it for a college course and I would highly recommend it for other interested readers, but just be aware that this author is writing with a persuasive bias.

John Cassidy’s book is a detailed look at how markets work their magic to produce goods and services in an efficient and non-coercive manner, and how about once per generation they go, in the words of investor William Bernstein, "barking mad."The book is organized into three main sections. Part One deals with classic economic theory and the giants who influenced it: Adam Smith, Friedrich Hayek, Vilfredo Pareto, Milton Friedman, Robert Lucas, Cecil Pigou, Alfred Marshal, and John Maynard Keynes, to name just a few. He described enough about their lives to make them interesting as people, and enough about their theories to give you more than a superficial understanding of what they did. Ever wonder what Pareto efficiency is and why it’s important? You’ll find it in this section.Part Two deals with the real world, as opposed to the ideal world described in Part One. This is the heart of the book, and explains how some of the simplifying assumptions of classic economics often are not met in the real world. A fascinating part of this section is The Prisoner’s Dilemma. This paradox occurs when, in certain situations, individuals seemingly act in their own best interest, but the collective result is a disaster. He also has a nice chapter in this section on the relatively new field of behavioral finance, developed by Kahneman and Tversky. Humans brains have evolved in layers and at the center is our ancient lizard brain. This is the center of "fear and greed" and in any contest between this and the outer cerebral cortex, the smart money bets on Mr. Lizard.Part Three deals with the sub-prime fiasco and the current economic crises. This is his application of Part Two to the current mess. Cassidy explains in detail the flow of debt from home buyer to mortgage lender to wall street to conduits and sivs and finally to investors and insurance firms. His analysis of this complex flow of debt and capital is really well done. At this point Cassidy loses his objectivity and begins editorializing about why things fell apart and who is responsible. (There is certainly no love lost between Cassidy and Allan Greenspan.) To make a long story short, he thinks markets sometimes behave like the Prisoner’s Dilemma Paradox. If individual market participants act in what they see as their best interest it can sometimes lead to a collective disaster that can only be prevented by government regulation. He explains convincingly how markets sometimes fail, but his arguments that government can always do better is not quite so convincing.A nice book to read after this would be "Too Big to Fail" by Andrew Ross Sorkin. Cassidy gives a structural macro view of the economic crises, while Sorkin gives a personal micro view of what went on in the actual board rooms of Wall Street Firms like Lehman Brothers during the meltdown.

This is one of the better books that have been published that analysis and expounds on the current intractable depression, or to be politically correct, recession that started in 2007 and now shows anemic signs of a recovery. If you read one book about the causes, make it this one, "How Markets Fail: The Logic of Economic Clamities," by John Cassisdy. It is an indictment on how economics drive goverment policies that create bubbles and which ultimately have to burst and laying waste to lives and livelyhoods on main street.Economic theory over that last 240 years or so is a twisted story that leads us in confusing directions and is litered with dead ends. Mr Cassidy takes readers on a straight path starting with Adam Smith's 'Invisible Hand' in the eighteen century to Alan Greenspan's blind faith in the infallibility of markets.John Cassidy, a writer for the prestigious NEW YORKER magazine, is particulary adepth at identfying economists' smart analysis and their tendency to veer from the practical to the utopian. This is a good segway for Part One, titled Utopian Economics, which offers a powerful argument that the current generation of investors and policymakers has been shackled by what he calls the "utopian" free-market school of economics. In an effort to debunk that "ideology," which he sees as holding sway in academia and among policymakers in recent decades, Cassidy marshals a deep understanding of economic intellectual history, deftly explaining the principal ideas of such towering figures as Adam Smith, Friedrich von Hayek, LÃƒÂ©on Walras, Kenneth Arrow, Milton Friedman, and Robert Lucas. This long view allows him to place in context the free marketers' notion that self-interest and competition "equals nirvana."In the author's words: "Between the collapse of communism and the outbreak of the subprime crisis, an understandable and justified respect for market forces mutated into a rigid and unquestioning devotion to a particular, and blatantly unrealistic, adaptation of Adam Smith's invisible hand."1 And it was this faith, he goes on to say, that led Alan Greenspan, among others, to turn a blind eye to what was happening in the real world of money and business.In Part Two of the book, titled " Reality Based Economics," Cassidy has his economic theory stars, too. They are the advocates of what he calls "reality-based economics"--grappling with market failures, disaster myopia, speculative frenzies, and other economic complexities. John Maynard Keynes, the great scholar of economic-crisis management, is one such thinker.So are the experimental psychologists Amos Tversky and Daniel Kahneman, the mathematician Benoit Mandelbrot, and Hyman Minsky, the expert on financial manias. "Reality-based economics ... affords the concept of market failure a central position, recognizing the roles that human interdependence and rational irrationality play in creating it," writes Cassidy. "If further calamities are to be avoided, policymakers need to make a big mental shift and embrace this eminently practical philosophy."2In Part Three of the book, titled "The Great Crunch," Cassidy offers a nuanced view. That's a major attraction in an era when shrill commentators bicker crudely about government vs. markets and liberty vs. socialism. Cassidy agrees with free-market advocates that the market performs wonders, but he believes its reach is limited. In that spirit, he favors greater government regulation of the financial-services industry. Although he doesn't dwell much on practical ideas for reform, he argues that it's necessary to tame Wall Street plus or minus now that financiers have learned they can privatize profits during good times and socialize losses in bad. He admires the changes that came out of the Great Depression, such as the Glass-Steagall Act, which separated banking from investment banking.Even if current legislators aren't willing to go that far, banks must be required to keep more capital on hand and be given limits on how much debt they can accumulate, he says. He considers the proposed Financial Product Safety Commission a sensible idea. "The proper role of the financial sector is to support innovation and enterprise elsewhere in the economy," he writes. "But during the past 20 years or so, it has grown into Frankenstein's monster, lumbering around and causing chaos." 3In closing, while reading this book i flashed back to my graduate days studying Economics and having the same type of debates with my professors, who were either free market experts with some rational expectationist thrown in, and defending the role of regulations, nature of bubbles, etc with the help of Hyman Minksy's work. A Great book for the current climate and happy to see that Professor Hyman Minsky is getting his due share of credit.Quotes 1,2,&3 are from "How Markets Failed"I also found these two reviews very enlighting alsoA)[...] by Robert Solow in the New RepublicB)Well Done Discussion But With a Slant, November 17, 2009 By Dr. Terrence McGarty (Cambridge, MA)on the website. Please check under four stars rating

I found The book to be very well written and clear about the crisis. It noted the failures of market fundamentalism and/or Free Markets.He talks about the four illusions the mainstream economist had about economics. He shows how economics was based on flawed and incompleteassumptions. I give the book 5 stars.

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