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Business confidence and credit are "singularly varying," Walter Bagehot, the editor of The Economist observed in 1896. "After a great calamity, everybody is suspicious of everybody; as soon as that calamity is forgotten, everybody again confides in everybody."

In 2012, suspicion has not yet subsided. And with good reason. Financial institutions brought the United States (and much of the rest of the world) to the brink of Depression in 2008-2009, and, it seems clear, Dodd-Frank hasn't fixed them. Enter Occupy Wall Street.

There is almost universal agreement, Robert Shiller, a professor of economics at Yale University, acknowledges, that our financial system has "real problems" -- and that regulations and restrictions should be put on it. Nonetheless, he insists, there is no alternative to financial capitalism. In Finance and the Good Society, Shiller argues that despite the "absurd concentrations of wealth" it engenders, its bewilderingly complex structures, and the games it forces people to play, finance capitalism can be harnessed to protect consumers, promote the public interest, and help reverse the alarming trend toward social and economic inequality, while doing what it does best: deliver superior products and services.

Any book by Shiller should command our attention. A behavioral economist, he challenged the view, dominant in academia and the financial sector in the 1980s and '90s, that markets were efficient and rational. In Irrational Exuberance (2000) he warned against a stock market bubble, urging investors in a second edition of the book to "make conservative preparations for possible bad outcomes." In 2003, Shiller suggested that further increases in housing prices could lead to a world-wide recession -- and followed up, five years later, with The Subprime Solution: How Today's Global Financial Crisis Happened And What To Do About It.

In this book, Shiller, ever the contrarian (but somewhat surprisingly), does not join the chorus of critics of finance capitalism -- and finance capitalists. He deems the belief that financiers have incentives to engage in predatory practices an "illusion." He denies that Goldman Sachs officials (who sold securities to clients while the company was selling them short) or Countywide Financial Corporation salesmen (who pushed subprime housing loans) "acted deliberately with full knowledge of the outcome." He denominates lobbyists "as probably more public-spirited than most." And he disagrees with "the popular notion" that extremely wealthy people are actively and aggressively seeking to prevent even a modest distribution of income, through taxes or regulation.

Equally surprising, Shiller suggests that finance capitalism, while not yet perfected, "is gradually improving." And that government regulation, while necessary -- "I am told," he writes, than many of the people who visit the Securities and Exchange Commission "can be manipulative and adversarial" -- is unlikely to prevent bubbles and overleveraging.

Shiller supports a social safety net and progressive income taxes, but he believes that under finance capitalism "many of our best protections" come from private financial arrangements that spread risk. He makes a compelling case that market mechanisms such as "cap and trade" are an efficient way to reduce greenhouse gas emissions. He claims that the market can address even the most personal problems, including dating services and kidney exchanges (which incentivize a large pool of people to make donations). And he wants a more expansive and humane insurance industry to extend coverage to the kinds of risks (like educational or career choices) that reveal themselves slowly instead of catastrophically and suddenly.

The government, according to Shiller, can and should facilitate the democratization of finance capitalism. Although most of his proposals are, at the moment, political non-starters, they deserve a hearing. Reading into the record the grotesque and growing income inequality in the United States, he weighs the pros and cons of a progressive consumption tax, points out that estate taxes, if set at "an intermediate level," can allow wealthy people to leave a farm or family business to their children, and advocates indexing tax systems to inequality (making them automatically more progressive if inequality were to worsen).

Finance and the Good Society is a timely and on the whole persuasive reminder that the institutions of capitalism have the capacity to spread democracy, prosperity and greater equality. All the more reason for wishing that Robert Shiller was a bit more sensitive to the damage they -- and the modern malefactors of wealth -- have done in recent years to the social fabric of the United States. Do we, one wonders, really have to "make it possible for a relatively small number of people -- a management -- to use their personal judgment to decide on the direction of our major activities"? And even if we acknowledge that before the emergence of modern finance capitalism societies were much more hierarchical and violent, should we acquiesce so readily to the power and the resources they now command? Not, in my view, if the goal is a good society.