doi: 10.10.18045/zbefri.2015.2.351

# Book review*
# Finance and the Good Society

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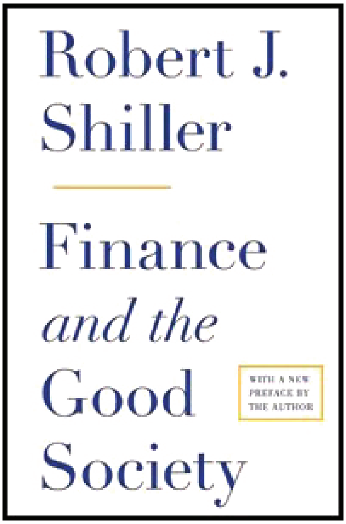
| Author: | Robert J. Shiller |
| Academic title: | University Professor |
| Institution: | Yale University, Department of Economics and Cowles Foundation for Research in Economics, Yale School of Management, International Center For Finance |
| Title: | Finance and the Good Society |
| Year of publishing: | 2013 |
| Publisher: | Princeton University Press, Princeton, New Jersey |
| Number of pages: | 312 |
| Type of publication: | Paperback |
| Type: | Scientific-popular book |
| Language: | English |
| ISBN: | 978-0-691-15809-9 |




The Book *Finance and the Good Society* was written by Robert J. Shiller who is the Sterling Professor of Economics at Yale University, a bestselling author of books like *Irrational Exuberance* and a Nobel Prize Laureat in Economics together with Eugene Fama and Lars Peter Hansen in 2013.

Robert Shiller is the only who has predicted both, the dotcom financial bubble in 2000 and the US housing crisis in 2005, so the reader could expect a critical analysis of the financial sector, as well as remedies how the financial system could be improved to avoid such shortcomings and crises in the future, what should lead us to, as he called it, the Good Society.

With these expectations in mind, the reader is faced with a scientific-popular book of 312 pages, divided in two parts and 30 chapters. The book itself is written in a manner that it is readable for students of economics and business, practitioners in finance and the general public.

After the *Preface to the Paperback Edition*, and the original *Preface,* Shiller explains in the chapter *Introduction: Finance, Stewardhip and Our Goals*, what the terms Finance and the Good Society mean and that Finance can, should and usually makes the world a better place. According to him, Finance should increase the level and

* Received: 08-12-2015; accepted: 15-12-2015

quality of financial services with the result of bringing more benefit to the society. The way the financial system should do it is by more financial innovations or sophisticated tools to manage new forms of risk for the general well-being. Thus, Shiller claims that modern finance should play in the future an even more important role in "helping the society", despite evident shortcomings, frauds and crises it caused in the past.

Part One entitled *Roles and Responsibilities* has eighteen chapters and is dedicated to the roles, functions and responsibilities of various participants in the financial sector, ranging from CEOs, investment managers and bankers to lawyers, educators and even philanthropists*: 1 Chief Executive Officers; 2 Investment Managers; 3 Bankers; 4 Investment Bankers; 5 Mortgage Lenders and Securitizers; 6 Traders and Market Makers; 7 Insurers; 8 Market Designers and Financial Engineers; 9 Derivative Providers; 10 Lawyers and Financial Advisers; 11 Lobbyists; 12 Regulators; 13. Accountants and Auditors; 14 Educators; 15 Public Goods Financiers; 16 Policy Makers in Charge of Stabilizing the Economy; 17 Trustees and Nonprofit Managers; 18 Philanthropists*.

According to Shiller, the focus in these chapters should be on functions, rewards and reputation of all actors mentioned above. By analyzing these eighteen chapters, on one hand, it can be concluded, that he succeeded in presentation of functions of the actors involved. On the other hand, taking into account the persisting financial crisis in the world, he is not critical enough and is almost admiring the multiplication of financial institutions and instruments today. So, talking about *Bankers* and *Investment Bankers* he does not seriously analyze if the fees charged by investment bankers are in any relation with their service and he is not really blaming them for their mistakes. On the contrary, he claims that "excessive suspicion" toward Wall Street is "a bigger threat to the economy than the wrongdoing of bankers". Concerning *Mortgage Lending* and the housing bubble, Shiller is not suggesting that financial derivatives like credit default swaps which deepened the recent financial crisis should be more restricted. Instead, he calls for even more financial innovations in the form, that e.g. homeowners should buy options which value would rise when home prices are falling. Discussing the role of *Educators* he is correctly assuming that they are also, at least to some extent, responsible for the financial crises by propagating and teaching the theory of market efficiency, what has created a false sense of safety. Academic research is mainly focused on financial theory and is not enough preparing students for practice or the real world of finance. But he does not stress the fact that academic research in finance is not fostering much the Good Society especially at public universities which are funded mainly by taxpayers' money.

The second part of the book entitled *Finance and Its Discontents* focuses on several institutional improvements in the financial sector what could help that Finance could contribute more to achieve the Good Society. It is structured in twelve chapters, an *Epilogue* and followed by sections called *Notes*, *References* and an

*Index*: *19 Finance, Mathematics and Beauty; 20 Categorizing People: Financiers versus Artists and other Idealists; 21 An Impulse for Risk Taking; 22 An Impulse for Conventionality and Familiarity; 23 Debt and Leverage; 24 Some Unfortunate Incentives to Sleaziness Inherent in Finance; 25 The Significance of Financial Speculation; 26 Speculative Bubbles and Their Costs to Society; 27 Inequality and Injustice; 28 Problems with Philanthropy; 29 The Dispersal of Ownership of Capital; 30 The Great Illusion, Then and Now*. In this part, Shiller observes many weaknesses how financial institutions behave in everyday business, but he does not give clear recommendations how to change it in practice. However, he presents a lot of arguments, pros and cons, in the behavior of the actors mentioned above, what draws an interesting picture how financial institutions are actually doing business. Sometimes his explanations are unexpected as in the chapter about *Debt and Leverage,* where he thinks that during the financial crisis in 2008 the American market for personal finance was inferior to the Chinese one, arguing "that the former had five credit cards per person, while the latter had thirty-three persons per credit card".

Taking all that into consideration, the reader of the book comes to the conclusion that Shiller has almost perfectly described how the financial system operates, but he lacks concrete recommendations in what way to improve it to avoid deep financial crises that have happened recently. On the contrary, his arguments for even more necessary financial innovations and sophisticated tools could cause or at least initiate additional bubbles and crashes in the future.

Finally, we all should rethink the goals what Finance is about and how it could "serve" the Good Society. It could be useful to bear in mind what even insiders from the finance system have to say, like John C. Bogle, the founder and ex CEO of the Vanguard Group, one of the leading investment management corporations and investment funds, whom Fortune magazine named one of the four "Investment Giants" of the twentieth century. In his book *Enough: True Measures of Money, Business and Life* describing money, finance and the financial system he says: "Too Much Costs, Not Enough Value; Too Much Speculation, Not Enough Investment; Too Much Complexity, Not Enough Simplicity."

It may be concluded that Finance has become too complex or even too complicated and should, in the name of more transparency, be simplified to fit better the needs of the Good Society.

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