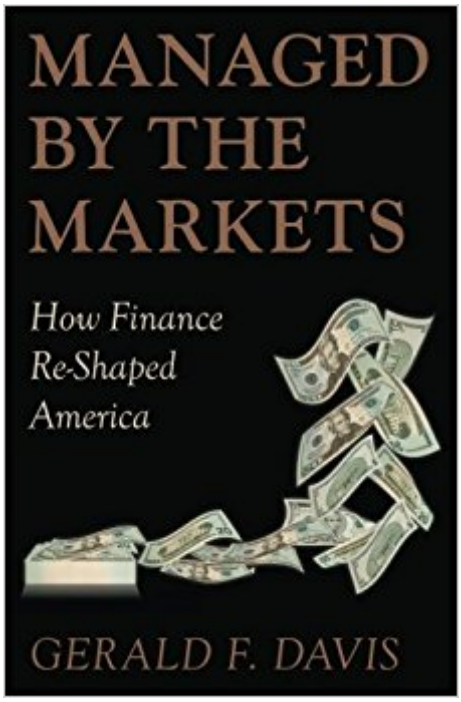
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Managed By The Markets: How Finance Re-Shaped America



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Synopsis

In recent years, we've been rocked by a series of economic jolts, and all of them seemed to revolve around finance. And the most recent, the American mortgage meltdown, has sent shock waves around the world. Managed by the Markets, which won the 2010 George R. Terry Book Award, offers an illuminating account of how finance has replaced manufacturing at the center of the American economy over the past three decades, explaining how the new finance-centered system works, how we got here, and what challenges lay ahead.Since the early 1980s, Gerald F. Davis shows, finance and financial considerations have increasingly taken center stage, dramatically reshaping American society. Corporations now have an overriding focus on creating shareholder value, while their personnel practices no longer provide secure employment, economic mobility, health insurance, or retirement benefits. Instead, employees must become shareholding free-agents, left to their own fate. Banking has shifted from the traditional role of taking in deposits and making loans to the widespread use of "securitization," turning loans (such as mortgages or corporate debt) into bonds owned by institutional investors. The financial services industry is both more concentrated among large banks and mutual funds, yet more spread out among under-regulated specialists such as mortgage finance companies and hedge funds. And states increasingly act as "vendors" in a global marketplace of law, emulating firms such as Nike, hiring contractors to do much of the work of government. As a result, individuals and households find their welfare tied to the stock market and the mortgage market as never before. And the turbulence of recent years starkly underscores the dangers of depending too much on financial markets. Written in the spirit of C. Wright Mills' penetrating The Power Elite and White Collar, this brilliant study provides an invaluable map of the finance-driven American society.

Book Information

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Customer Reviews

This academic analysis of our evolution from an industrial to a postindustrial portfolio society offers provocative clues for anyone seeking to understand the current financial crisis and Americans' financial security. Davis, professor of management at the University of Michigan, asserts that in the eras of financial capitalism (1900Ã¢â ¬â œ1930) and managerial capitalism (1930Ã¢â ¬â œ1980), Americans looked to the corporation and long-term savings to provide them with security. In the wake of the takeovers and financial move to high risk savings in the 1980s, and deregulation and corporate scandals in the late 1990s, however, Americans have become disillusioned with the corporation as a source of lifetime employment and retirement capital and have instead relied on financial markets for security and wealth creation. In describing George W. Bush's ownership society, Davis notes that when individuals come to see themselves as free agent investors, the consequences for society can be dire. While a compelling read, this book offers few predictions for the new investor society, suggesting only that big government might have to clean up the mess that individual Americans have made. (May) Copyright Ã Â© Reed Business Information, a division of Reed Elsevier Inc. All rights reserved. --This text refers to an out of print or unavailable edition of this title.

"An ambitious, magisterial, and yet not-too-long effort to sketch the social consequences of a finance-driven economy."--Matthew Yglesias, The American Prospect"A compelling read...offers provocative clues for anyone seeking to understand the current financial crisis and Americans' financial security."--Publishers Weekly"Timely and thought-provoking."--CHOICE"This is a valuable and novel perspective...In contemplating the wreckage of the crisis, one should follow Davis's example, and ask whether this was either inevitable or desirable, and what, if anything, we might learn from it." --Strategy+Business"Jerry Davis has been one of our most thoughtful researchers on the topic of how publicly traded corporations have changed in the past 25 years. ...many of the remedies proposed here are wending their way into law. ...a good place to start for anyone who is interested in what really [caused the financial crisis]."--Administrative Science Quarterly"A valuable, timely and gripping analysis...Davis's book should be required reading for anyone, whether academic, practitioner, or policy maker, who needs to think critically about finance which, rather than a mechanistic set of transactions, is presented in the book as a social phenomenon that is

invading our lives."--Accounting, Economics, and Law"The meltdown of American financial markets has been catastrophic but the cause elusive. In Managed by the Markets, Gerald Davis offers a compelling explanation for it and so much more. To understand the disintegration of big corporations, securitization of just about everything, and transformation of our zeitgeist from producing products to making money, this is the book, a gripping portrait of the triumph of financial markets over all else."--Michael Useem, Professor of Management and Director of the Leadership Center at the Wharton School, University of Pennsylvania"In this intellectual tour de force, Jerry Davis describes the evolution of the American economy to where we are now-where everything is a security or an option and, therefore, tradable in some sort of market. He also details the profound costs we have paid for this evolution. Timely, engaging, and filled with facts and analysis, Managed by the Markets explains how we got to where we are and maybe, just maybe, where we need to go next."--Jeffrey Pfeffer, Professor of Organizational Behavior at Stanford University and author of What Were They Thinking? Unconventional Wisdom About Management"Davis's book is as compact and clear a description of how we screwed up a fine economy as you will find...Managed by the Markets is not some mere Progressive or left-liberal polemic against Wall Street manipulators. Because it is based in an accurate historical review of the stepwise process by which financial considerations replaced virtually every other concept of economic or social good, Davis's book delivers a solid, and negative, verdict against management by unregulated markets, which always crash." --Maui News"This is a valuable and novel perspective...In contemplating the wreckage of the crisis, one should follow Davis's example, and ask whether this was either inevitable or desirable, and what, if anything, we might learn from it." --Strategy+Business "Davis reminds his readers of the history of U.S. corporate law, and how individuals states competed to offer favorable law of incorporation to large firms." -- Contemporary Sociology

I loved this book!Dr. Davis of the Ross School of Business at the University of Michigan covers a lot of ground to explain how the U.S. economy became molded its current form with everything (possessions, children, & friends) valued in the form of a "position" in an investment portfolio. In closing the book he soberly poses the question, do we really want to view our marriages, our children, our homes, our savings, and our friendships as "a quickly disposable position" and not a meaningful commitment to each other? I sure don't! This new American economic thinking appears to be unique as other leading economies like Japan, Germany, even view a corporation as having positive social obligations to society in addition the pecuniary one of "Value Creation". Praise God!His writing on finance is from the perspective of an oracle observer from a wide perspective.

Though he teaches at a leading business school, he is sociologist and not economist or finance expert. His writing is similar to Dr. John Kenneth Galbraith of Harvard University (which I mean as the highest possible compliment).Steven Greseth, M.B.A, P.E.Louisville, Kentucky

This book provides an interesting and insightful look into the world of financial markets. It creates a timeline from the late 1800's to present day describing the policy steps, and social implications that have led to the current market based economy of the United States. In so doing this it provides a unique perspective on what individuals may experience, and what they can expect in the future for the market based economic system.

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Except for the title, which should be "Mismanaged by the Markets," University of Michigan business professor Gerald Davis's book is as compact and clear a description of how we screwed up a fine economy as you will find.It is presented in the form of a quick history of the changes in American business over the past century or so, and while I think it leaves out some important stuff, it does hit the high points.One thing it leaves out is that until the 1920s, about two-fifths of American households were primary producers (farmers, mostly) or almost totally and directly dependent on primary producers (country stores, millers). These people represented a good deal less than two-fifths of wealth, but they were not greatly dependent on big city banks. They were dependent on wider markets and suffered when prices crashed in 1922, but if there had been a run on National City Bank, they would hardly have noticed.Bankers were important, but their role was circumscribed. There could not have been a national housing bubble in the '20s, because mortgage lending was local, as was much banking. There was no FDIC, although some states, like Nebraska, had state bank deposit insurance (which, in the case of Nebraska, went bust in '28, without setting off any wider tremors). As Davis recognizes, banking was about to become even more circumscribed in the middle years of the century.The dominant firms of the American economy, the giant manufacturers, were so profitable that they didn't need Wall Street or banks for any fundamental task: They found the capital they needed for expansion and renewal in their retained earnings. (Davis, keeping his eye on the target, does not mention that one of the biggest, Ford, twice nearly went broke and both times bulled its way through without giving up control to bankers or bondholders. Even if Ford was

hardly typical of American management style, the fact that it could ignore bankers in a crisis confirms Davis's conception.)As manufacturing waned as a proportion of the overall economy, finance took over. I think Davis puts this too late. The turning point can be exactly dated, to 1953, when General Motors went to the bond market for the first time and when its replaced its chief, who until then was always a production man, with an accountant.This still might not have affected Joe Sixpack, but the worshippers of market dynamics wanted to persuade people who were too small to operate in financial markets to directly tie all their assets to market trading. Davis calls this the portfolio society. Its high (or low, depending on your point of view) point came when George Bush tried to bully Americans into transferring all their mobile wealth into the hands of Wall Street traders.Even though Bush failed in his attempt to force Main Street to go to Wall Street, the American householder, seduced by the innovation of convenient home equity loans (you could, literally, treat them as checking accounts), transferred even his immobile wealth into the hands of Wall Street traders. If Main Street wouldn't go to Wall Street, Wall Street figured out how to come to Main Street. In the '20s, shoeshine boys played the stock market and, notoriously, Joseph Kennedy liquidated his securities when his taxi driver started giving him stock tips; but back on the farm, nobody was buying Radio on margin and hoping to see it break $1,000. By 2007, everybody was a playah.The theory of market orientation as the sole and only good form of economic organization assumes participants (and especially those with asymmetrical power) are at least conventionally honest in the sense that you could invite them into tea and not have to count the spoons afterward. That was the unspoken foundation behind the Bush proposal.In fact, of course, that assumption is unjustifiable. Davis has plenty of examples dating back to the Roaring Twenties and he makes use of many of them. Despite the fact that anybody who opened his eyes could see that the financial markets never had operated as the efficient market theorists had theorized, there was a well-greased publicity organization set up to persuade people not to believe their own eyes.Davis calls this a faith-based economic system.He is one of many observers to have noticed that the switchover from a production economy to a finance economy coincided with a generation of workers who, for the first time in American history, could not expect their children to enjoy better material terms of existence than they had; and, for the majority of workers, not even the ability to maintain their own position.It was said that shipping productive jobs overseas would free American workers to do new, yet undreamed of tasks that would pay better. The theorists of this view failed to care that there were millions of Americans who were in no position to take these new jobs, even if they were offered (which, for the most part, they were not).The only really basic economic statement ever made was spoken by a social worker, Harry Hopkins, who said, "People don't eat in the long run.

They eat every day."The prophets of finance never concerned themselves about that. In the new economy "workers were all temps."It might have worked even so, if the financial manipulators had been honest and if they had understood the risks they were creating. With trivial exceptions, they were neither. "Wall Street came to Main Street like a tornado in a trailer park." Square dealing -- to the extent it was ever common -- was replaced by "cynical pragmatism."Now all the fine theories have been exposed -- again -- as mistaken, but the fine theorists are not budging.Despite the fact that the era of mixed capitalism inspired by the New Deal was the richest and most stable in history, the finance- and market-oriented theorists and practitioners worked hard and successfully to dismantle it."Managed by the Markets" is not some mere Progressive or left-liberal polemic against Wall Street manipulators. Because it is based in an accurate historical review of the stepwise process by which financial considerations replaced virtually every other concept of economic or social good, Davis' book delivers a believable verdict on a sort of mass delusion, akin psychologically and spiritually to the Children's Crusade of the Middle Ages or the witch mania of the 17th century.

The thesis of this book is that "the shift from a manufacturing to a service (or post-industrial) economy in the United States has been decisively shaped by finance." People, labor, houses, and bank accounts are now treated as commodities to be bought and sold in the marketplace, which is itself increasingly free of governmental control. In the final chapter, the author outlines several deleterious effects of this shift: "less mobility, more inequality

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