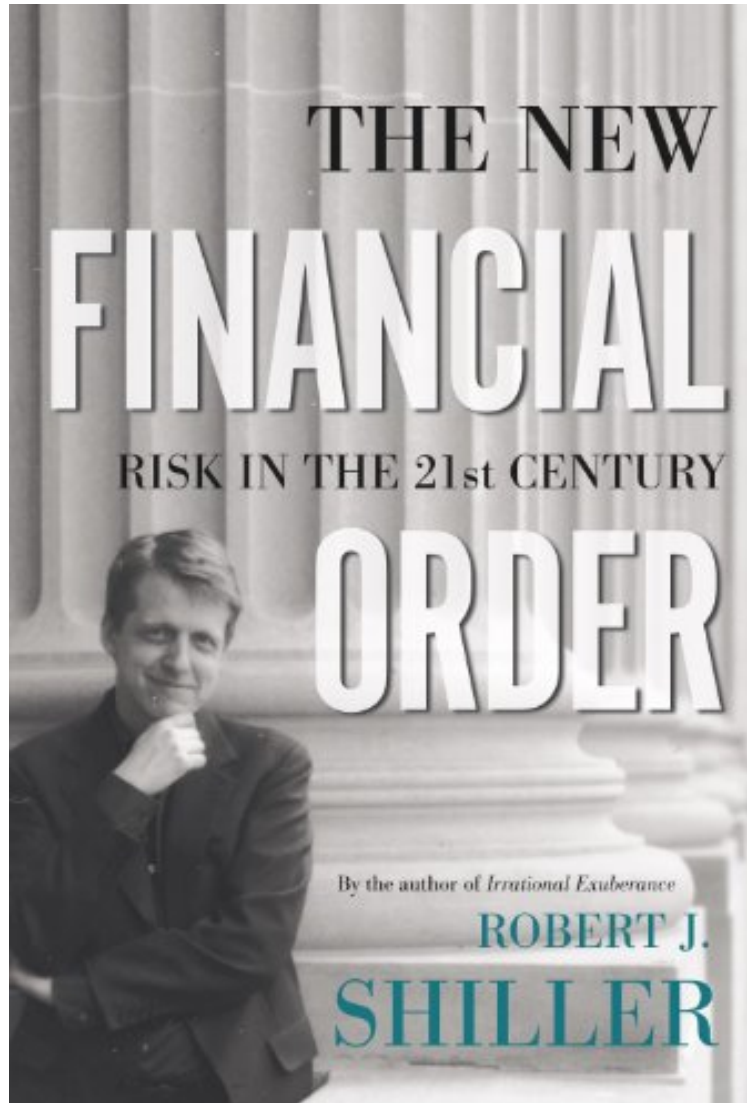


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The New Financial Order: Risk in the 21st Century

Robert J. Shiller

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Robert J. Shiller : The New Financial Order: Risk in the 21st Century before purchasing it in order to gage whether or not it would be worth my time, and all praised The New Financial Order: Risk in the 21st Century:

0 of 0 people found the following review helpful. Good. Interesting proposals, clearly presented and argued. By Joseacute;-Fernando Pineda The book arrived in good conditions and in due time as promised by the seller. The author, a recent economics Nobel laureate, lays the ground, with well-articulated though occasionally controversial arguments, in favor of both a far wider and broader scope and reach of present insurance markets, to cover risks that as of today fall mostly outside traditional insurance boundaries. To quote from the author's introductory remarks "...new risk management ideas can enable us to manage a vast array of tricks - those present and future, near and far- and to limit

the downside effects of capitalism 'creative destruction'. By so doing, he expect not only to reduce the customary anticipated losses springing from some of today's unconverged risks, but equally interesting, to reduce the collective expected risk levels as perceived by today's and future prospective economic investors. A reduction of risk level perception via some of the proposed new insurance infrastructures, would spur higher than normal investment levels by public authorities and private entrepreneurs, thus enhancing national economies long run growth rates and furnishing a more enjoyable quality of life for its members, brought about by forely untapped or too risky positive innovations. In sum: higher investment levels and a more rewarding social innovation environment will be more profitable than merely trying "to improve our lives and our society....through piecemeal tinkering". An interesting proposal worth considering, explained in a convincing and remarkably clear argumentative line for a world that today is justifiably exceptional of modern financial and insurance arrangements.0 of 0 people found the following review helpful. Worth a read, though not quite as inspiring as his other worksBy 1000BooksRelative to Irrational Exuberance, which received much acclaim, The New Financial Order was not given the same sort of thumbs up. I'm a bit biased having seen him speak and thinking that many of his ways of looking at the world are quite unique. A huge fan of Shiller, I was taken aback to find that the reviews of the book were very mixed. Of course i had to read it and have my own say.Shiller's book which proposes a "New Financial Order" does in fact provide his preliminary thoughts on how that should look. He discusses several newer financial instruments with which he has significant involvement, including his housing indices, the user of swaps as climate hedging instruments, and the IMF's attempts to get developing countries to work harder to implement the use of such derivative instruments.Where I think the book looses its steam is in the writing. Shiller's first book was really artful in its ability to coherently and orderly express irrational exuberance. In this regard, it was a single phenomenon that was introduced and explicated using examples throughout history.This particular book attempts to show a future of risk management that is much broader in scope. As a result, the examples are from a multitude of places to the point of seeming almost random and off point. At once he is discussing derivative, swaps, and futures in the context of climate of multinationals and unemployment. At the same time he is showing historically what has existed in those nations. The transitions are just not smooth.The meat of what he is saying was fantastic. It truly is the case that risk is evolving and the world is innovating to a place where the sheer number of identifiable risks that exist have increased dramatically. It definitively is the case that data allows us to measure and identify these risks in ways that never before were available. And Shiller absolutely points out an important change in the advent of financial instruments that have been created to meet these demands. He even begins to show methods in which capitalism to create markets which would improve income distribution.However, he does it in a manner that is not nearly as organized as his first book. I think this may be why the critiques of the book miss both his major points and why this book is actually unique for this time. I have to doc it points for style and suggest those that are avid fans to keep his main points in mind and dig through the pages to find the gems that Shiller is attempting to articulate.2 of 3 people found the following review helpful. Controlling Risk - A New MatrixBy dennis wentraubThe NEW FINANCIAL ORDER outlines an ambitious plan for reworking the ways we control financial risk. Shiller "democratizes" the subject of risk by addressing, among other things, the vulnerability of "ordinary riches" like the value of our homes and our choice-of-career incomes. These risks are various, unpredictable, and unevenly distributed through time and geography. That unevenness (unfairness, Shiller might say) means the risks can be insured, securitized, and traded. The moral dimension to this is Shiller's intention to hedge inequality that is "gratuitous, random, and painful".Changes in a nation's economy and the unknowable effects of technological advances are two long-term, systemic risks we all face. By comparison, the risk to an investor's wealth of a company's stock missing its projected quarterly earnings is small in measure to the seismic shifts in the net worth of a much broader base of homeowner stakeholders. Now, if the stock market is not an adequate proxy for the overall wealth of the economy, then why not create "macro markets" for securities that swap out the risk of one nation's aggregate output (GDP) for another's. Some will argue that the stock markets in the U.S. and other developed countries are already proxies for their economic prospects. But given the thin liquidity and relative immaturity of many other markets, securities tied to a more fundamental metric such as GDP or all real estate values are a clear positive.Shiller does a good job of suggesting the challenges government and the private sector will confront to implement a new risk infrastructure. There is an interesting anecdotal history in Part Five of how various financial and insurance plans came into being as with our social security system modeled after the German system in the 1880's. The development of sophisticated "global risk information databases (GRIDS)" will provide a resource for writing appropriate contracts in the future. Privacy advocates will shudder, but part of the point is that the ways we control risk have evolved over time and can be modified to work better. This is a provocative book because of the wealth of its vision. With this much innovative thinking it seems reasonable that additional studies will build on Shiller's work and pave the way for some of these ideas to be adopted.

In his best-selling Irrational Exuberance, Robert Shiller cautioned that society's obsession with the stock market was fueling the volatility that has since made a roller coaster of the financial system. Less noted was Shiller's admonition that our infatuation with the stock market distracts us from more durable economic prospects. These lie in the hidden

potential of real assets, such as income from our livelihoods and homes. But these "ordinary riches," so fundamental to our well-being, are increasingly exposed to the pervasive risks of a rapidly changing global economy. This compelling and important new book presents a fresh vision for hedging risk and securing our economic future. Shiller describes six fundamental ideas for using modern information technology and advanced financial theory to temper basic risks that have been ignored by risk management institutions--risks to the value of our jobs and our homes, to the vitality of our communities, and to the very stability of national economies. Informed by a comprehensive risk information database, this new financial order would include global markets for trading risks and exploiting myriad new financial opportunities, from inequality insurance to intergenerational social security. Just as developments in insuring risks to life, health, and catastrophe have given us a quality of life unimaginable a century ago, so Shiller's plan for securing crucial assets promises to substantially enrich our condition. Once again providing an enormous service, Shiller gives us a powerful means to convert our ordinary riches into a level of economic security, equity, and growth never before seen. And once again, what Robert Shiller says should be read and heeded by anyone with a stake in the economy.