



The New Financial Order: Risk in the 21st Century

By Robert J. Shiller

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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.



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Editorial Review

From Publishers Weekly

Shiller is best known for arguing, as he did in *Irrational Exuberance*, that stock market movements do not reflect underlying economic reality and that the volatility of the market makes the financial system unstable. It is therefore a surprise to find him advocating vast expansion of financial derivative markets to reduce the economic risk faced by individuals and countries. According to Shiller, governments should swap 10% or more of their gross domestic product with other countries and administer income swaps among entire generations. Individuals should manage risk by trading in new financial instruments based on the lifetime income of their profession, the value of homes in their area or economic statistics like the unemployment rate or inflation rate. Money, he says, will be replaced by "indexed units of account" tied to things like wage rates and commodity prices. People will carry transponders to report on their every activity, with the results stored in "global risk information databases," containing all personal information, including genetic data but protected against unauthorized access. In this way, the government can eliminate the underground economy and tax evasion and individuals will enjoy more economic security. The author admits people don't think they want this additional security, but he advocates "psychological framing" to change their viewpoint. The book is certain to be controversial. Some will see a visionary, high-tech combination of the best of capitalism and socialism. Others will be reminded of *Brave New World* and *1984*, with privacy, freedom and adventure traded for a totalitarian mediocrity founded on constant monitoring and propaganda.

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From *The New Yorker*

Audaciously taking well-established economic ideas to their logical extreme, Shiller calls for a revolution in the management of risk, both individual and collective. While markets are currently used to hedge away a small number of risks—health problems, rising commodity prices, volatile currencies—Shiller believes that they could also limit risks like falling house prices and rising unemployment. In the future, countries might buy and sell futures contracts based on their own G.D.P., and individuals could insure themselves against choosing the wrong profession. There is a mad-scientist quality to some of these proposals, and the technical and political obstacles to their implementation seem insurmountable. Still, Shiller's ambition is exhilarating, and gives his work something that most business books lack: a deep sense of how economic ideas might transform people's everyday lives.

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Review

The good news, on Professor Shiller's analysis, is that it is now possible to conceive and construct tradeable indices that will allow insurers to offer protection against such things as industrial decline and demographically-induced pension shortfalls. If we all knew such insurance was available, we could afford more risks with our choice of career, to the benefit of the economy. Creativity is the lifeblood of capitalist economics. Emotional worries about the risk of unemployment are one of the biggest threats to continued innovation. . . . The data and technology to make a market in such things exists. All that is lacking, Professor Shiller says, is the will to make them a commercial reality.

Users Review

From reader reviews:

Earnest Jennings:

The event that you get from The New Financial Order: Risk in the 21st Century may be the more deep you excavating the information that hide into the words the more you get enthusiastic about reading it. It does not mean that this book is hard to know but The New Financial Order: Risk in the 21st Century giving you enjoyment feeling of reading. The author conveys their point in selected way that can be understood by anyone who read this because the author of this publication is well-known enough. This specific book also makes your own personal vocabulary increase well. So it is easy to understand then can go along, both in printed or e-book style are available. We recommend you for having this kind of The New Financial Order: Risk in the 21st Century instantly.

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