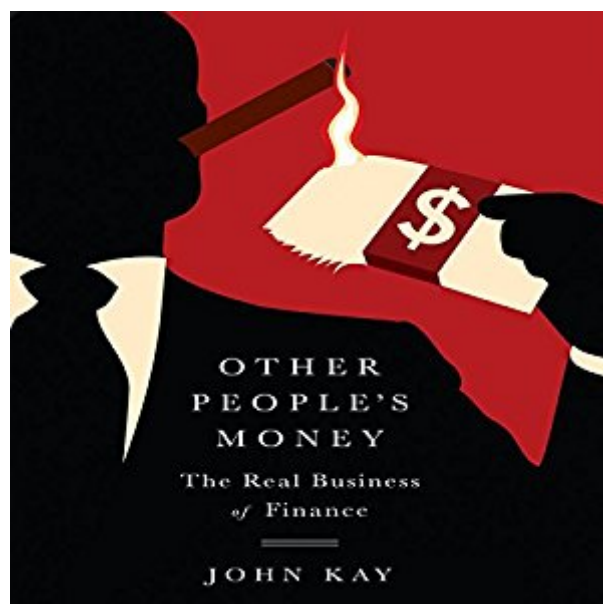


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# Other People's Money: The Real Business Of Finance



## Synopsis

The finance sector of Western economies is too large and attracts too many of the smartest college graduates. Financialization over the past three decades has created a structure that lacks resilience and supports absurd volumes of trading. The finance sector devotes too little attention to the search for new investment opportunities and the stewardship of existing ones and far too much to secondary-market dealing in existing assets. Regulation has contributed more to the problems than the solutions. Why? What is finance for? John Kay, with wide practical and academic experience in the world of finance, understands the operation of the financial sector better than most. He believes in good banks and effective asset managers, but good banks and effective asset managers are not what he sees. In a dazzling and revelatory tour of the financial world as it has emerged from the wreckage of the 2008 crisis, Kay does not flinch in his criticism: We do need some of the things that Citigroup and Goldman Sachs do, but we do not need Citigroup and Goldman to do them. And many of the things done by Citigroup and Goldman do not need to be done at all. The finance sector needs to be reminded of its primary purpose: to manage other people's money for the benefit of businesses and households. It is an aberration when some of the finest mathematical and scientific minds are tasked with devising algorithms for the sole purpose of exploiting the weakness of other algorithms for computerized trading in securities. To travel further down that road leads to ruin.

## Book Information

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## Customer Reviews

I never thought I'd say this about John Kay, but he needs to stop writing. He's no longer

current. He's unnecessarily running the risk of destroying what is a tremendous legacy of contribution. His heart is 100% in the right place. His grasp of the principles is as strong as ever. There are tons of ideas here that are undeniably correct, first and foremost the idea that managers of businesses must be personally liable for wrongdoing. I also could not agree more with him when he notes that the end of Glass Steagall was a disaster, because it allowed banks to (fraudulently, Enron-style) apply mark-to-market accounting on years of Net Interest Margin, generating one-time profits and necessitating further bloating of balance sheets to keep the gravy train going. His knowledge of finance, however, is stuck in 1986, give-or-take, and in this book it truly shows. In no particular order, here's a list of stuff he gets half right / he almost gets to and then somehow contrives to totally miss / he gets flat wrong. It pains me to write it, it feels like I'm stabbing in the back an old friend, I've practically grown up reading and looking forward to reading his FT column, but some things need to be said: 1. He correctly notes that we have a problem of too many regulations, not too few (for the simple reason that banks find ways around the regulations and this spawns even more regulation etc.) He also correctly notes that High Frequency Trading is a scourge.

I agree with John Kay: "The objective of reforming the finance industry should be to restore priority and respect for financial services that meet the needs of the real economy. There is something pejorative about the phrase 'the real' -- meaning the non-financial -- economy, and yet it captures a genuine insight: there is something unreal about the way in which finance has evolved, dematerialised and detached itself from ordinary business and every day life." Consider these observations by Louis Brandeis that Kay cites in Chapter 4, and note the date: "The goose that lays golden eggs has been considered a most valuable possession. But even more profitable is the privilege of taking the golden eggs laid by somebody else's goose. The investment bankers and their associates now enjoy that privilege. They control the people through the people's own money." (From Brandeis' *Other People's Money and How the Bankers Use It*, 1914) Brandeis could well have been describing today's financial institutions (including banks) whose total control of credit limits enables them to charge usurious rates on unpaid balances and charge usurious penalties on debit card overdrafts and credit card late payments. These are among the several dozen passages of greatest interest and value to me, also listed to suggest the scope of Kay's coverage in Part 1, "Financialisation" (Chapters 1-4):

- o The Road to Pottersville (Pages 11-16)
- o The Rise of the Trader (16-23)
- o New Markets, New Businesses (23-34)
- o From Crisis to Crisis (34-42)
- o The Robber Barons (e.g. Henry Clay Frick, Jay Gould, J.P. Morgan, John D.

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