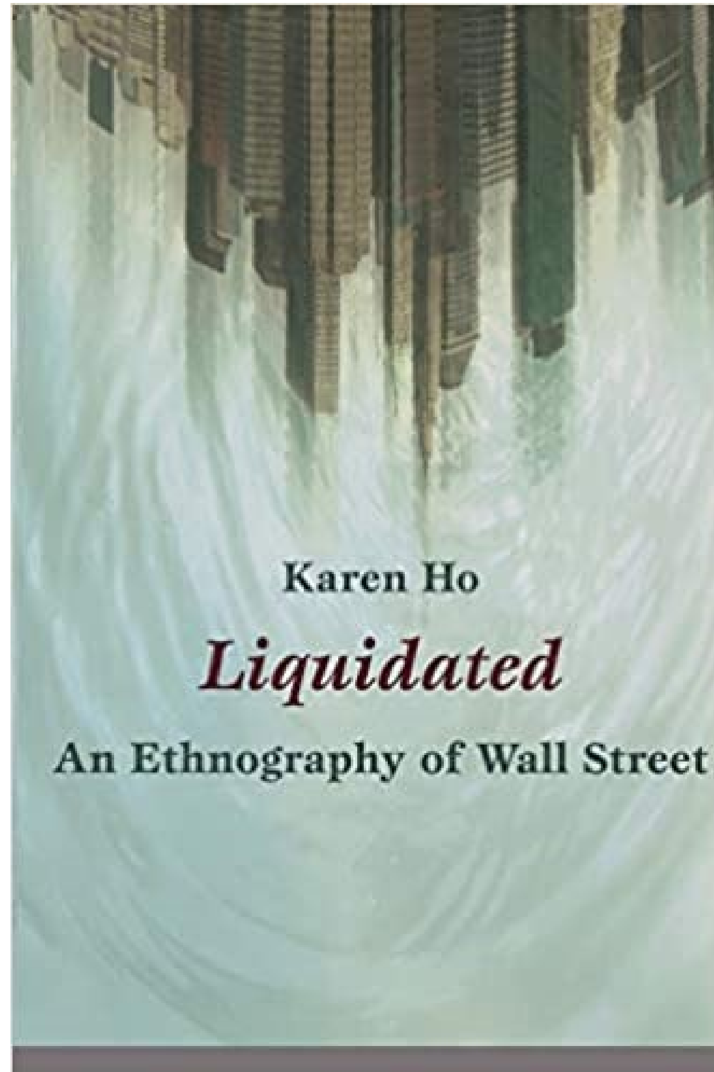

Ho, Karen. *Liquidated: An Ethnography of Wall Street*. Duke University Press Books, 2009. © Duke University Press Books. All rights reserved. This content is excluded from our Creative Commons license. For more information, see https://ocw.mit.edu/help/faq-fair-use/.

Key Points from Ho:

1) capitalism and markets are not abstractions – they are made up of individuals and social organizations with cultural beliefs, historical backgrounds, etc.

2) **We need to stand back from taken-for-granted terms** - Terms like “shareholder value,” “efficiency” and “innovation” are not self-evident, but cultural concepts

Discussion from chapters:

- How are Wall St investment bankers recruited? What does Ho mean by a “culture of smartness”?

- What is nature of work like on Wall St? Is Wall St truly a meritocracy?

- How does compensation work on Wall St? what cultural values does it assume for bankers? what are its implications?

KEY CONUNDRUM FOR HO:

In past, when Wall Street was doing well, “Main St” was doing well; In recent decades that is less the case.

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WHY?

WHAT IS SHAREHOLDER VALUE?

How does shareholder value ideas reflect ideas of what companies are and their purpose?

1940s – idea that companies were permanent while shareholders transitory; companies are social institution with constituents and responsibilities beyond stock owners, multiple stakeholders

1980s – resurgence of 19th century ideas that companies must be seen as private property of individual shareholders and only purpose is to increase price of shares (which often means downsizing employees)

difference between now and 19th century is CEOs and founders of companies tendency to treat companies not as entities that make products but as investments that you cash in on – focus on exit strategy and cashing out

SHAREHOLDER VALUE REVOLUTION ->>

CONSTANT DOWNSIZING of COMPANIES and COST-CUTTING TO RAISE SHARE PRICES -> contraction of jobs

WALL ST DOING WELL ≠ MAIN ST DOING WELL

EXAMPLE:

"CORPORATE RAIDING" of 1980s –

Leveraged buyouts– investors borrowing large amounts of money often using "junk bonds" to buy companies in hostile takeovers; would often *sell off* parts of company, *cut* workforces, *pay down* some of debt to raise equity; and then *resell* the company and make a large profit

Then became mainstreamed as "mergers and acquisitions"; junk bonds become "high yield" bonds, etc.

Between 1980 and 1990:

1/3 of fortune 500 companies ceased to exist;
1/3 had been targets of hostile takeovers;
2/3 had initiated anti-takeover defense

-Karen Ho, *Liquidated*

Number of jobs associated with Fortune 500 companies went down by almost a third from 16 million jobs in 1979 to 11.5 million employees in 1993.

-Karen Ho, Liquidated, pg. 137

Financial Crisis of 2008

What Caused the Financial Crisis of 2008?

Tett, Gillian. *Fool's Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe*. Free Press, 2009. © Free Press. All rights reserved. This content is excluded from our Creative Commons license. For more information, see https://ocw.mit.edu/help/faq-fair-use/.

1) Innovation – creation of complex financial instruments that allowed BANKS and others to buy "insurance" to protect against CREDIT DEFAULTS, ideally to disperse risk

SOME BASICS from GillianTett's Fool's Gold:

Derivatives - financial instrument whose value derives from an underlying asset, usually commodities, bonds, equities or currencies; those who buy and sell them are often making a bet on the future value of that asset

CDSs – Credit default swaps – turn derivatives into credit derivatives, buying "insurance" against risk of credit defaults; securitize them by putting them into bundles in which risk could be separated into tranches with different levels of risk

CDOs – collaterized debt obligations – standardized versions of CDS, many single tranche levels of risk; riskier but higher returns

Appeal of new financial instruments:

- Lowered credit reserves- allowed banks to lower credit reserves; freed up money so they could give out more loans

-got credit risk off books – banks created shell companies that “owned” these instruments, off shore and off books

2) Perversion – how financial instruments started to be used in extremely risky ways heightened by lack of transparency and lack of regulation

- How these instruments then became intertwined with housing markets

3) DISASTER – the financial crisis itself

- In 2000, subprime CDOs were worth $80 billion (less then a tenth of all mortgage bonds)

- by 2005, subprime mortgages were at $800 billion (half of all mortgage-linked bonds)

- Gillian Tett, reasons for financial crisis of 2008 include:

  - social silence

  - technical silos

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Social Implications: Tea Party vs Occupy Wall St

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21A.461 What is Capitalism?
Fall 2021

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