Regulation & Governance

BOOK REVIEW

Disembedded: Regulation, Crisis, and Democracy in the Age of Finance

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The decades before the 2008 Financial Crisis, known as the "Great Moderation" (Bernanke 2004), saw a decline in macroeconomic volatility, celebrated as a success in US economic policy. However, this stability was shattered by the subprime crisis. Years of pro-market policies and minimal government intervention culminated in the Great Recession, which had severe social and economic costs and reshaped American politics.

In "Disembedded: Regulation, Crisis, and Democracy in the Age of Finance," Basak Kus delves into the complex factors leading to the Financial Crisis. She argues that the intensive financialization of the US economy over the preceding three decades laid the groundwork for a financial sector increasingly disconnected from the real economy. In other words, the US financial sector became "disembedded" from the broader American economy, creating vulnerabilities that would later prove catastrophic.

Kus emphasizes the transformative shift in the relationship between government and market during these decades. The state was redefined by economic ideas that promoted a reduced governmental role in favor of market-oriented policies. Political narratives also shifted, encouraging the government to step back from its traditional roles as the guarantor of macroeconomic stability and regulator of financial risks. Consequently, the United States faced a deficit in risk protection, characterized by a turn toward market-led governance where financial markets largely defined their own principles and rules. This change created significant gaps in risk regulation, consumer protection and social welfare, leading to "disembeddedness"—a detachment of financial markets from the social, governmental and protective structures that had historically mitigated economic risks for individuals and society.

To build these arguments, Kus adopts a historical perspective, drawing an analogy to Karl Polanyi's analysis of industrialization in the 19th century. Accordingly, the transformation brought by industrialization marked a major structural shift in the economy, prompting institutional responses to address the social and economic dislocations that followed. Guided by the principles of the liberal creed, these responses initially aimed to allow market forces to operate with minimal interference. However, the market became increasingly disembedded from societal protections, leading to social and economic instabilities which eventually culminated in a crisis that triggered the rise of populist and anti-system movements. Similarly, the recent era of financialization represented a profound shift in economic structure, with neoliberal ideology shaping institutional responses to its inherent risks and dislocations. The government adopted a more passive role, allowing financial markets to govern themselves with minimal oversight, resulting in new forms of disembeddedness as financial markets became increasingly disconnected from society. The 2008 Financial Crisis exposed the vulnerabilities of such an unregulated financial system and, eventually, sparked populist and anti-establishment movements in the United States.

This intense financialization process was facilitated by four key mechanisms. The first one relates to targeted *deregulation*. Rather than been applied through an expansive and all-encompassing process, deregulation intensively focused on eliminating critical financial regulations such as the Glass-Steagall Act. This selective strategy enabled the growth of financial markets while leaving certain key areas unregulated, which contributed to increased market volatility and risk exposure.

Another significant factor was *regulatory drift*, characterized by passive governmental actions. Policymakers did not actively keep up with the rapid innovations and complexities emerging in financial markets. This inaction allowed financial systems to evolve independently, without sufficient oversight or adaptation of regulatory frameworks to address new forms of risk.

Furthermore, the regulatory emphasis shifted to *information-based rules* and *micro-oriented risk regulation*. This approach operated on the assumption of market discipline and relied on the idea of rational individuals making decisions based on transparent public information disclosures. It was assumed that market risks could be managed effectively through individual decisions rather than systemic oversight. As a result, regulatory efforts focused less on systemic stability and more on the behavior of individual institutions as markets were conceived as self-correcting and without the need for overarching macro-prudential regulations or policies.

These four mechanisms were intended to reduce the need for stringent market regulations, based on the assumption that well-informed market participants would behave responsibly. However, in practice, they collectively fueled the rise of a financialized economy marked by the over-concentration of power within banking and financial institutions, shifting economic influence away from government policies. As a result, individuals became increasingly exposed to financial markets, with traditional state protections gradually supplanted by market-driven actions and instruments. It translated into a tension between state protectionism and market protectionism, with the latter often prioritizing the interests of financial institutions over broader social welfare. When the financial bubble eventually burst, it unleashed widespread insecurity, heightened risks, and deepening inequalities, as individuals and communities bore the brunt of the crisis without the safety net of robust governmental protections.

Basak Kus's book offers a nuanced analysis of the unprecedented financialization of the American economy, examining its detachment from the real economy and contributing to the discourse on financialization and neoliberalism. However, it largely overlooks the international political context in which this transformation occurred. The Cold War's geopolitical tensions and the competing influence of state-led economies in Soviet-aligned countries significantly spurred deregulation efforts in the United States during the 1980s. These efforts facilitated the expansion of financial markets by easing regulations and reducing border controls. Although not the book's primary focus, integrating this global context and perspective would be crucial for a more comprehensive understanding of the US internal financialization process in these decades.

The book opens promising avenues for future research. First, examining whether post-crisis regulations like the Dodd-Frank Act have successfully reintegrated the financial sector with the real economy could reveal if advanced economies are now better protected against risks like those of the 2008 Financial Crisis. Second, investigating whether similar dynamics occurred in European economies before the crisis, which led to a severe sovereign debt crisis, could help compare financialization in the United States and the European Union and inform policies to strengthen resilience. Lastly, current geopolitical tensions and rising government interventions call for further exploration of the interplay between new regulations and the financial sector, enriching the literature on financial regulation.

Conflicts of Interest

The author declares no conflicts of interest.

Reference

Bernanke, B. (2004). February. *The Great Moderation. Remarks by Governor Ben S. Bernanke at the meetings of the Eastern Economic Association*. Washington DC: Federal Reserve Board. https://www.federalreserve.gov/boarddocs/speeches/2004/20040220/.