EXCERPT

Is Our Money Lying?

Friedrich Hayek, the godfather of neoliberalism, had little interest in the efficiency of markets, but was fervently convinced of their honesty. Because prices reflect all available information about a good, they are the most accurate symbol of its true worth. The current crisis is not simply a "market failure," in which prices are not functioning properly, but a profound loss of faith in money's capacity to tell the truth.

—**WILLIAM DAVIES**, academic director of Oxford University's Center for Mutual and Employee-Owned Business, in ***The New Statesman*** (Nov. 16, 2011)

ECONOMICS, LABOR & BUSINESS

Don't Blame Bonuses

THE SOURCE: "Bankers' Bonuses and the Financial Crisis" by Ian Tonks, in ***Vox EU***, Jan. 8, 2012.

EVERYONE HAS A THEORY ABOUT what caused the 2008 financial crisis. One idea that's made the rounds is that the money flashed at bank executives in the form of salaries and bonuses encouraged them to take big risks that maximized short-term profits at the expense of long-term viability. The U.S. Financial Crisis Inquiry Commission asserted as much when it connected the crucial 2008 failure of the investment bank Lehman Brothers in part to an executive compensation scheme "that was based predominantly on short-term profits." In the United Kingdom, the chairman of the Financial Services Authority linked "inappropriate incentive structures" with risk-taking and the financial turmoil of 2007–09.

The finger-pointing may be unwarranted, says University of Bath finance professor Ian Tonks. The financial sector differs from other corporate sectors "not so much in its reward for taking risks, but in its reward for expansion," he writes, summarizing research he did with several colleagues.

The group compared the salaries and bonuses of executives across all British industries from 1994 to 2006, just before the financial crisis hit. Not surprisingly, the financial sector boasted some of the highest pay rates for executives and board members. Yet the relationship between firms' performance and executive pay was not much different from that in other industries. A 10 percent increase in company stock price was associated with a measly 0.68 percent increase in executive compensation. "In other words, executives were paid irrespective of performance," Tonks writes.

The researchers found a stronger correlation between executive pay and firm size in the financial sector: When a firm's assets increased by 10 percent, executive pay rose by two percent. If regulators want to protect against another financial crisis, it seems they'd be better off trying to decouple executive pay from the expansion of financial empires.

SOCIETY

School's Out Forever

THE SOURCE: "Unschooling" by Astra Taylor, in ***n+1***, Winter 2012.

IMAGINE BEING A KID AND HAVING no school bus to wait for, no quizzes to fret over, no curriculum to slog through. Imagine that the only thing guiding your education is your own curiosity, with the occasional assist from Mom and Dad. That was the experience of Astra Taylor, a writer and documentary filmmaker who was raised in the radical pedagogical tradition known as unschooling.

The unschooling movement got its start amid the idealism of the 1960s and '70s. Iconoclasts