

Book Reviews

*Divested: Inequality in the Age of Finance*. By Ken-Hou Lin and Megan Tobias Neely. Oxford: Oxford University Press, 2020. Pp. 240. \$29.95.

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*Divested: Inequality in the Age of Finance* focuses on the rise of finance as a cause of growing economic inequality. It posits that financialization has led to greater economic inequality in the United States. Ken-Hou Lin and Megan Tobias Neely demonstrate in their novel examination that an understanding of how finance has contributed to current, extreme levels of inequality requires going beyond a narrow focus on trends in economic inequality and the growing power of the finance industry. They successfully cast their net wide, ambitiously analyzing three interdependent processes that they argue are associated with the financialization of the U.S. economy: the increasing ability of finance to extract profits from nonfinancial sectors, the rise in financial activities of nonfinancial organizations and related cultural shifts toward a shareholder value model, and the gaping holes in the U.S. welfare state that have led to increased consumption of financial products of private individuals. These processes correspond to the rise of finance on “Wall Street, Main Street, and residential streets” (p. 50), respectively.

While it is often asserted that finance is an engine of economic inequality, this claim has not yet been corroborated as thoroughly and convincingly as in this book. Lin and Neely achieve their thorough assessment of how financialization has contributed to rising inequality by drawing on wide-ranging literature spanning sociology, economics, finance, and public policy and by analyzing data from a wide range of sources, including the Survey of Consumer Finances, Federal Reserve, OECD, and World Bank. Their results are presented in engaging and clearly designed graphs.

An exciting contribution of the book is that its analysis takes into account economic history. In chapter 1, having defined finance as “a social contract that mobilizes economic resources to promote production and consumption” and financialization as “the wide-ranging reversal of the role of finance from a secondary, supportive activity to a principal driver of the economy” (p. 25), the authors trace the roots of financialization to the Bretton Woods system,

the capitalism crisis of the 1970s, and the political reorientation toward neo-liberal ideology that followed. Chapter 2 turns its attention to the rise of income and wealth inequality in the United States, bearing witness to the brutality of the unequal distribution of economic resources in this rich country, where the incomes and wealth holdings of the top 1% have surged while 20% of children are at risk of hunger on any given day.

The heart of the book is the authors' argument that financialization has contributed to increasing economic inequality via three interrelated processes: "the extraction of economic rents from the nonfinancial economy for the benefit of the financial sector, the demise of the capital-labor accord, and the dispersion of economic risks from the state and organizations to families" (p. 50). In chapter 3, we learn that the financial sector accumulated a growing share of resources from the rest of the economy through "the concentration of market power, the deepening involvement of finance in politics, and the private intermediation of public services" (p. 81). The latter relates to the finding that instead of providing health care, adequate social security, affordable housing, and education, the government encouraged financial companies to offer loans to individuals. This approach has exacerbated inequality. Moving on from Wall Street to Main Street, in chapter 4 we are introduced to the financialization of the nonfinancial sectors, specifically how American firms increasingly started lending and trading in financial markets and how the rise of the shareholder value model in corporate governance, which prioritizes financial rewards to owners above all else, undermined labor and the production of goods and services. Here Lin and Neely offer fascinating examples of how these developments played out in specific firms of the past and present, including General Motors and General Electric, and the spectacular failure of Enron.

Turning to individuals and households, the authors explain how financialization has exacerbated inequality through the expansion of household debt and fueling wealth inequality, respectively (chaps. 5 and 6). The increase in household debt has contributed to rising inequality. Lin and Neely demonstrate that affluent households actually use the majority of credit, while working-class and poor families receive only a fraction. However, the latter are charged more for the same amount of debt and also have to fork out a larger portion of their incomes. The belief that access to credit will alleviate inequality is hence revealed as a pernicious, erroneous one that has exacerbated inequality. Further, the financial industry has contributed to a rise in wealth inequality because stock ownership is even more unequally distributed than wealth overall. We learn that the richest 10% of U.S. families "owned about 80 percent of the equity market" (p. 156), hence investment firms' efforts predominantly increase the wealth of the wealthiest (and whitest) Americans as well as investment managers, who receive vast fees. Lin and Neely explain that the already staggering racial gap in stock ownership expanded between 1989 and 2016 and debunk the myth of an inclusive stock market.

Lin and Neely then discuss the aftermath of the Great Recession, highlighting that economic inequality has worsened further (chap. 7). We learn

that the policies addressing the financial crisis have restored rather than reformed the financial sectors. Concluding, they address policy solutions and note that the relationship between financialization and inequality is not unique to the United States, although it appears more pronounced in liberal market economies like the United States, suggesting that varieties of capitalism matter. Although beyond the scope of this volume, it would have been interesting to learn more about the specificity of the U.S. case, comparing it to other developed countries. This and, as the authors highlight, the relationship between finance and global inequality are interesting avenues for future research.

This important book is a must read for those interested in the relationship between finance and inequality. It is an excellent resource for scholars and students of economic inequality, finance, public policy, stratification, and racial inequality. The book will further be of interest for activists, policy makers, and anyone concerned about widening economic inequality.