The Human Side of Markets

Author : Tom C.W. Lin

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- Mehrsa Baradaran, **The Color of Money: Black Banks and the Racial Wealth Gap** (2017).
- Andrew Lo, **Adaptive Markets: Financial Evolution at the Speed of Thought** (2017).

Too often when discussing matters of markets and finance, policymakers and scholars lose focus of the basic fact that people are at the core of markets and finance. It is people who move markets. It is people who generate supply and demand. It is people who need financing—for homes, for investments, for education, for healthcare, and other life decisions. Behind the faceless reams and terabytes of data are people who make up the fuels and gears of the marketplace. Behind the powerful models and promising technology that frequently dominate the contemporary financial markets are people. Properly recognizing the fact that people are at the heart of markets and finance is one of the critical keys to better understanding and harnessing the power of markets and finance.

Two illuminating new books, one by a legal scholar and one by a financial economist, delve into different noteworthy aspects of the human side of markets. Professor Mehrsa Baradaran of the University of Georgia School of Law recently published *The Color of Money: Black Banks and the Racial Wealth Gap*, a book that examines the long-lasting effects of racism, markets, and regulation on Black communities in the United States; and Professor Andrew Lo of the Massachusetts Institute of Technology's Sloan School of Management recently published *Adaptive Markets: Financial Evolution at the Speed of Thought*, a book that offers a new and more human-oriented framework for thinking about markets. Each book is distinct in their areas of focus and scope, but they both share a fundamentally human-centered perspective about the promising and perilous roles of people in market and financial decisions.

In *The Color of Money*, Professor Baradaran takes a historical look at the role of Black banks in connection with the economic struggles of Black communities in the United States. The book narrates the intertwined stories of Black banks and the communities that they were originally designed to serve from the time of the Emancipation Proclamation to present day. With a scholar's talent for research and a lawyer's power for persuasion, Baradaran makes a credible case about some of the longstanding obstacles faced by Black banks and Black communities on the road to economic success and wealth. At the start of the book, Baradaran lays out her primary argument: "Housing segregation, racism, and Jim Crow credit policies create an inescapable economic trap for black communities and their banks. Black banking has been an anemic response to racial inequality that has yielded virtually nothing in closing the wealth gap." (P.2.)

In subsequent chapters, she bolsters her case with historical and political evidence stretching from Lincoln to Trump. She examines how politicians from both sides of the aisle, with charity and malice, frequently made it harder for Black banks and Black communities to succeed. The purpose of the book was largely to highlight the systemic and historical roots of the racial wealth gap via the lens of Black banks, and not to offer up any specific solutions to this pernicious problem. Nevertheless, by laying out the problem so thoughtfully, *The Color of Money*, offers a great starting point for anyone thinking about possible solutions to the persistent problems that implicate money and race.

In contrast to Professor Baradaran's sharp and specific focus on Black banks, Professor Andrew Lo's *Adaptive Markets* turns his lens on the broader topic of human behavior and financial markets by proposing what he terms as the adaptive market hypothesis. According to Lo, the hypothesis is "based on the insight that investors and financial markets behave more like biology than physics, comprising a population of living organisms competing to survive, not a collection of inanimate objects subject to the immutable laws of motion…it implies that the principles of evolution—competition, innovation, reproduction, and adaptation—are more useful for understanding the inner workings of the financial industry than the physics-like principles of rational economic analysis." (P. 2.)

While some may expect a book focused on a new economic hypothesis to be highly technical and dry, Lo's gift for narrative makes the distillation of his idea an easy and insightful read. Through discussions and stories that touch on the personal as well as the academic, Lo traces how he arrived at the hypothesis through twelve chapters. The book draws on a rich body of interdisciplinary research from biology, psychology, neuroscience, engineering, and computer science. Ultimately, the book argues credibly and optimistically that market mechanisms can be better leveraged to our collective social benefit when we adapt them more thoughtfully for the people involved in the marketplace.

In the end, *The Color of Money* and *Adaptive Markets* offer two deeply researched and well-told stories about two different aspects of markets and finance from two leading scholars of two distinct fields of study. Nonetheless, despite their critical differences, both books impart a common fundamental lesson about the importance of better accounting for the human factor when thinking, regulating, and acting within finance and markets. To think and act about markets and finance wholly divorced from their human participants, beneficiaries, and victims—while theoretically elegant—frequently prove to be endeavors in folly and foil with serious implications. As such, business executives, scholars, and policymakers can certainly do better to heed this shared lesson of Professor Baradaran and Professor Lo to enhance and refine the already awesome means of markets and finance towards better ends.

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