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Neil Fligstein. The Banks Did It: An Anatomy of the Financial Crisis. Cambridge, MA: Harvard University Press, 2021. 336 pp. $39.95, hardcover.

The financial crisis of 2007–2008 was the most serious since the Great Depression and severely impacted the global economy. Yet more than 10 years after the crisis, we still lack clear understanding of its cause. Accounts point to some elements of fact but tend to be fragmented and sometimes contradictory. More than ever, we need an account that can put the puzzle pieces together and help us understand how to prevent a crisis like this from happening again.

Drawing from his extensive scholarship on institutions, markets, and organizations and using both historical archival and quantitative analysis, Neil Fligstein's book *The Banks Did It: An Anatomy of the Financial Crisis* provides a rich, deep, and comprehensive account of the financial crisis, arguing that the world the banks constructed and how they profited from it are at the core of what happened. Fligstein's focus on the banks' role is essential because the most striking feature of the 2007–2008 financial crisis, compared to prior such crises in U.S. history, is the failure of some of the largest U.S. banks. His central argument is that the largest banks' dependence on the mortgage securitization industry for most of their profits caused the financial crisis. To support this argument, Fligstein provides a rich historical account of the shift from the savings and loan model of mortgage financing, whereby local banks provided loans to homeowners, to the mortgage securitization model, in which those mortgages became the raw material for securities bought and sold around the world. In the process, banks increasingly integrated mortgage origination and securities. In some cases, banks even purchased the same securities they had originated. Thus banks made money throughout the process by using cheaply borrowed money. When the housing market started to slow down, integrated banks could not reverse course; when the value of their mortgage securities became uncertain, the banks quickly became illiquid and then insolvent.

Fligstein's account develops from the perspectives of political economy and institutional theory. The political economy perspective reflects a co-constitutive relationship between the government and the market—governments help define the rules of the game and enable firms to build stable market structures, and firms influence governments to shape the political governance of their markets. In the U.S. mortgage market, the government had innovated the conventional mortgage in the 1930s and mortgage securitization in the 1960s in order to expand homeownership to the American public. The political system set the stage for banks to thrive by producing myriad financial products to serve potential homeowners. In this process, the largest and most politically connected banks have convinced the government to give them the kind of market rules they wanted.

From there, Fligstein's analysis zeroes in on the vertically integrated business model that the largest banks adopted since the repeal of the Glass–Steagall Act in 1999. This focus on the business model is what sets Fligstein's account of the financial crisis apart from others; it is also one of the most intriguing aspects of the book and may invite volumes of future research. Fligstein argues that when origination and selling/purchasing of mortgage securities were both conducted in house, banks had less incentive to perform due diligence than they would if they had purchased mortgage securities from outside firms. Vertical integration is a central topic in organizational theory, and its advantages and downsides have been much debated. Therefore one may ask why vertical integration failed to generate the valuable insider information that was supposed to enable banks to avoid purchasing risky assets, but instead served as the vehicle encouraging them to underestimate or even ignore the risks. Further, Fligstein uses institutional theory to explain how banks were locked into the vertically integrated business model. Once the business model proved profitable, the industry mythologized it and major banks institutionalized it. Thus when the housing market slowed and foreclosures rose in 2006, it was difficult, if not impossible, for banks to change course. Even worse, when getting mortgages and selling securities became difficult, the banks became more desperate, originated even riskier mortgages, and even committed fraud.

It would be worthwhile for future research to investigate further how the perceived risk of mortgage securities was constructed before the financial crisis. The questions of why risk control within banking organizations seemed to be nonexistent or completely malfunctioned and why banks pursued mortgage securities even further in 2006 have much to do with the banks' perceptions of such assets' risk. A few possible explanations exist. First, the banks might have treated a Knightian form of uncertainty as a type of risk that could be managed by portfolio diversification. Second, the government's mediation role in the mortgage market may be a cause. Even with an integrated business model, the largest banks still sold mortgages they had originated to government-sponsored enterprises such as Fannie Mae and Freddie Mac and then acted as underwriters for the bond process of mortgages. In this process, the government implicitly stood behind the integrity of the bonds. That might explain why banks, when they acted as buyers, were so blind to the high risk of mortgage securities. Third, the peer group might have contributed to the construction of the perceived risk. When rationality is collectively constructed and deviation from a group norm is perceived to be irrational, as Fligstein vividly describes, "backing off the business model would have seemed like surrender to other firms and potentially would have left money on the table" (p. 8). The same mentality applies to international banks—as European banks saw their American counterparts borrowing money to buy AAA-rated mortgage securities and becoming highly profitable, they simply imitated them.

Future research could also compare big banks in terms of their internal structure and management mechanisms. For example, prior to the financial crisis, four of the five large investment banks, Bear Stearns, Lehman Brothers, Merrill Lynch, and Morgan Stanley, had invested in mortgage origination, but Goldman Sachs never sought closer ties to mortgage originators. Similarly, for the traditional commercial banks, while Citibank became the poster child of the crisis, JP Morgan remained relatively intact and even bought Bear Stearns and

Washington Mutual in attempts to stem the tide of the crisis. Were those survivors merely lucky? Or did they have certain internal mechanisms that prevented them from taking the same course of action that the failed banks did? In addition, more detailed analysis of these banks' asset composition would help to identify whether their dependence on mortgage securities was a proportional or a structural dependence.

The Banks Did It is a well-researched, comprehensive, and engaging book that represents an important advance in our understanding of the financial crisis of 2007–2008. Readers, be they organizational theorists or anyone who has a stake in preventing the next financial crisis, will walk away better informed of how the crisis was produced, why it spread so fast and so deeply, and how regulators missed what was happening. The content, backed by data-rich analyses, offers deep insight into how pursuit of self-interest can create perils for organizations and for society. Until we grasp that people's cognitive understanding is constrained by organizations and the positions they occupy, we will likely face a similar set of challenges again, albeit perhaps in a different setting.

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