

**Dynamics of financialization
after the crisis?
How finance (still) gets its way**

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Outline

- Starting point: finance is not humbled, (despite current crisis, the resulting bailouts and large losses imposed in terms of foregone GDP and imposed austerity). But growing concerns about ‘imbalance’
- Explaining this as a story about power and elites, mainly about the UK (noting specificities of financialization), but with relevance elsewhere, by:
 - a) looking back at C Wright Mills and
 - b) moving forward with the finance and point value complex.
- The aim is to highlight the pervasive, programmatic power of finance. To understand financialization, we have to understand many things. So, a contribution to a collective endeavour.

(1) Finance unreformed

The story so far...

Unreformed finance

a) investment banking

- *Half-hearted reform in UK*: limited structural change -> no major bank break-up; ring fencing of investment banking, not separation; few constraints on long chain leveraged finance; (still) low capital requirements; bonuses survive (eg HSBC Feb 2014) and redundancies postponed
- *Scandals continue*: Libor, exchange rate fixing (even after Libor)
 - Collusion, manipulation of rates -> profit and bonus implications; Barclays Capital as 'loose federation of money making franchises' (not the 'go-to bank').
 - Finance Minister, George Osborne on Libor crisis: '*we know what went wrong*' No interest in learning.

Unreformed finance

b) retail banking

- *Half-hearted reform in UK*: more competition via 'challenger banks'... (but not tackling business model, where RoE targets in mid-teens drive mis-selling eg Jenkins at Barclays: 15% RoE target in retail)
- *Scandals continue*: ever more mis-selling. Payment protection insurance PPI (started pre-2008) was not the end of the matter (c.£25bn expected final cost)-> interest rate hedging products mis-sold to business (c.£1.5bn); Lloyds fined (Dec 2013) for sales incentives; warning about annuities, packaged personal accounts... UK leads the way, first, on mis-selling, then uncovering it. Fines and provisions as a way of life for the banks.

The apparent inexorability of finance and financialisation

- *Finance sector is hard to regulate and reform*
 - Representative democracy captured by financial elites after (as before) 2008; indicated by revival of narrative about the City of London as 'our most successful industry'. Widening gap between political classes and opinion polls showing mass distrust of bankers and banking.
 - Technical expertise is not empowered to control market bricolage (expulsion of Adair Turner from policy making); central banks keep things going via QE and low interest rates (a form of action research on the economy, which props up the financial sector and produces new carry trade opportunities and flow of hot money).
- *Finance also has a pervasive and programmatic power through the non-financial sectors*
 - Financialised calculations in the productive economy (supply chains and shareholder value pressures eg Apple v Foxconn; supermarkets v processors)
 - Public contracts and financial decision principles in the contracting state (UK train operating companies)

Meanwhile....

mainstream panic about 'imbalance'

- *Imbalance in UK + elsewhere?* Panic about government and corporates not balancing the interests of different sectors/ regions/national stakeholders/ or supply chain players.
- Economic balance to be restored by a proliferation of centrist projects: from Michael Porter's 'shared value' aiming to 'reconnect company success with social progress' to UK political classes hand-wringing about 'rebalancing the economy'.
- Political balance of centre-left and right alternation is failing: rise of can't pay/won't pay politics & Euro-scepticism as an anti-elite project across Europe; broad social democracy and welfarism no longer taken-for-granted.
- Alternative movements and interesting fringe developments: eg anti-shareholder value movement (all against 'short-termism', including Jack Welch, McKinsey and the *Harvard Business Review*); shareholder value 'myth' movement...

(2) the military industrial complex

rewind 50 years...

**to an earlier period of imbalance to
help understand unreformed
finance**

Towards new answersby looking back

- If we look back at the history of the Western democracies we can find earlier periods of complaints about imbalance and the privileging of corporate projects and priorities.
- Look back at earlier theories of imbalance e.g. of the military industrial complex in 1930s Europe or 1950s & 60s USA + recent attempts at updating with ideas of a Wall St complex.
- *A new account of the conditions of impetus and direction?: a 2014 account of the finance complex in the spirit of C Wright Mills on *The Power Elite* and the abridgement of democracy (rescuing Mills from the condescension of posterity).*

The military industrial complex: Eisenhower's farewell (1960)

- *Eisenhower's farewell address (January 1960);* pluralism was the dominant political theory in 1950s America so Eisenhower explicitly presented government's task as 'balancing' before warning against 'unwarranted influence...by the military-industrial complex'.
- *The military-industrial complex term was borrowed from the Daniel Guerin's (1936) book where 'fascism is essentially the instrument of heavy industry' + armaments resolve the generic profitability problems of capitalism. Guerin's complex combined economic necessity + political autonomy; industrialists wanted rearmament but not war.*

C Wright Mills rejects balance

- *Against pluralist idea of 'the power system as a balancing society'* (p.266): interdependence of units + representation of interests abolishes alternatives
- 'The idea that the power system is a balancing society also assumes that the units in balance are independent of one another' (C.Wright Mills (1956) *The Power Elite*, p.266)
- 'Those having real power in the American state today are not merely brokers of power, resolvers of conflict, or compromisers of varied and clashing interest – they represent and indeed embody quite specific national interests and politics (p.247)

The power elite (1956)

- *Mills' military industrial complex was about the decline of politics as 'genuine and public debate of alternative decisions'; how the USA committed to the Cold War project + 'military definitions of reality' (p.275) in defence and international affairs.*
- *For a conditions of decision making explanation - power elite control mechanisms at high level:*
 - i. Absence of civil service expertise ie an 'independent bureaucracy above political party pressure' (p.239)*
 - ii. Presence of major hierarchies in business corporations, political executive + military; 'command posts' occupied by an affinity group (shared values and backgrounds).*

Mills followers? (mechanisms not problematic)

- *Those who find 'complexes' in other times and places = typically ignore the Millsian problematic (how alternatives are abolished) + fixate on mechanisms (command posts, backgrounds, revolving doors); economic interest + regulatory capture:*
 - *Pre Crisis eg Veneroso and Wade (1998) on Wall St-Treasury-IMF complex + the Asian crisis as an opportunity to open Asian economies to international capital*
 - *Post crisis eg Johnson and Kwak (2010) on The 'Wall St takeover' + 'the American oligarchy' ie Bush + Obama administrations were 'largely manned by people who had come from Wall St or had put in place the policies favoured by Wall St'.*

(3) the finance and point value complex

(re) thinking how it works
in the spirit of Mills

A Millsian problematic? new conditions

- Mills was about multiple conditions of decision making/ a kind of *agencement* ; how absences as well as presences give impetus and direction/ define a project
- *Updating (not transposing) Mills requires a new kind of analysis:*
 - *Capitalism has changed* eg finance not as hierarchies but as 'distributional coalition'; semi-visible intermediaries; working across organisational boundaries; with or without exchange of personnel eg TARPs with Hank Paulson ex Goldman Treasury Sec. vs Bank of England culture of lifers like King, Tucker and Haldane.
 - *Our understanding of capitalism has changed;* we can think differently about direction + impetus (eg how elites control agendas) when we have the Foucauldian concept of capillary power or the ANT concept of *agencement* and non-human actors
 - *Generic analysis of (financialized) capitalism isn't enough:* location and conjuncture matter; understanding elites effects not towards a grand theory of elite power.

The generic frame: sovereign + capillary power (1)

- **Dominance of finance sector via its unchecked sovereign political power** i.e. government sponsorship safeguards the finance sector's right to
 - a) *undertake long chain, levered, international trading operations; via*
 - b) *have a marketing relation to retail masses; despite huge costs of bank welfare + repeated mis-selling*
- Organised lobbying; narrative defence secure agenda control and closes alternative debates. Isolation and punishment of individuals (not organisations). Pledges to change the culture, not the business model, of banking.
- *(Plus pervasiveness of finance via mobile capillary power in reshaping the non-finance economy (public and private)....)*

The generic frame: sovereign + capillary power (2)

- *(....Dominance of finance sector via its unchecked sovereign political power)*
- **Plus pervasiveness of finance via mobile capillary power in reshaping the non-finance economy (public and private)**
 - a) reconfiguration of the state/ public sector as a network of contracts + transactions via utility privatisation, PPPs, corporate welfare with clip for finance sector*
 - b) point concepts of value displace stream concepts of value in the private sector (not only corporate shareholder value but also private equity and housing equity withdrawal); narrow, (private) calculations of value regardless of chain consequences. Shareholder activists, reinvention of the corporate form to extract cash*
- *Outcome: programmatic financialization?*

Limiting the thinkable and doable: key conditions

- *Why is it so difficult to reverse political sponsorship of finance?*
 - 1) *Performative plausibility* ie financial innovation appears to deliver for marketising agenda of neo-liberal economics and interpellates individuals via rising share or property prices etc.
 - 2) *Technicisation of expertise* in arcane regime setting policy areas; inequality of expertise and ability to challenge and reframe; backed by lobbying with stories about general social interests eg social contribution of finance.
 - 3) *Point value as the alibi of the age* used to simplify + depoliticise complex social choices + conflicts eg shareholder value + low prices in supermarkets (at expense of suppliers)?; or best value for civil servants to justify contract award decisions (eg in rail franchising, or train)

UK specifics: programmatically financialization

- *UK has pioneered a kind of (spreading) programmatic financialization*: national decline + failed corporatism created (a) demand for modernisation projects + (b) political vacuum by undermining opposing forces + ideas.
 - *1979-2008 herbivore neo-liberalism*: ie privatization with regulators; public-private partnerships to deliver public services; independent central bank etc. Apparently vindicated but unsustainably dependent on state funding for jobs and housing equity withdrawal.
 - *Little political resistance*: deindustrialisation meant collapse of tradeable goods corporates + decapitation of provincial elites ie ICI, GEC + Coates (as well as the decline of mass parties, as in other high income countries)
 - *Intellectual buy in*: the left abandoned classical critique of private sector + idealised success of London finance; political classes + civil service made careers out of 'reform' (with few new ideas after 2008); the market as a proxy for political discretion

Conclusion: the necessary intellectual intervention?

- The power of finance is heavily dependent on acceptance of the limits on what's thinkable and doable (especially where economies are weary with prolonged austerity); hence current importance of interventions from the media, civil society and universities.
- Absence of independent bureaucracy above politics -> expertise needed. But introspection of professionalised social sciences becomes a problem eg either ignoring crisis or drawing into a pre-existing frame for small peer groups
- Engaging the specifics and developing alternatives eg if not point value, what would be a more social criteria of success and how would it be enforced? (social licensing)