Book Review: Finance and power


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Anastasia Nesvetailova and Ronen Palan borrow the term sabotage from Thorstein Veblen’s institutional economics of the early-20th century, where it refers to attempts of American business to control the market, restrict competition and maximize profits. His interest included large corporations, ‘captains of industry’ and their relations with major financial houses. Moving fast forward this book finds, again, that financiers make a lot of money, more than in other economic sectors. Essentially because they are better positioned, their economic sabotage is more effective. In a hundred years the principles have barely changed though the methods have become far more sophisticated. The book is hard hitting, its arguments have bite and come with evidence that provides forensic detail and is often new.

Banks cheat clients, governments and other banks. Banks cheat their clients, such as RBS in the UK and Wells Fargo in the US (creating phony accounts, 2009). Banks outflank governments because of lack of regulation (19th century-1930s), regulation (1930s), deregulation (1980s), reregulation (2009), while for banks profit opportunities emerge either way. Regulation itself is a big business (p. 117). Regulations can be turned into profit opportunities, such as loopholes to navigate regulation, repackaging financial products to circumvent rules and providing lucrative advice on how to circumnavigate rule changes.

Banks may help out other banks while acquiring inside information that can be used to bring them down, sidelinging or gobbling up a competitor to emerge stronger. Goldman Sachs played a role in the downfall of Bear Stearns (2008) as well as Lehman Brothers. Jamie Dimon of JP Morgan Chase Big argued that big banks are necessary in the US so they can compete with China’s big banks (2015, p. 119). The grail of bigness spawned mergers and acquisitions not just to grow but also to avoid that a bank would be the target of a takeover. Under pressure of Santander and Barclays, RBS acquired ABN-AMRO to avoid being a target of takeover, which later proved to be its downfall.

The gist of the operations of banks is to sabotage competition by using inside knowledge and scale to hoodwink competitors and government and become larger still, which may be rationalized by pretexts ranging from efficiency to geoeconomic contention.

The first question is if all businesses try to draw monopoly rents, why is finance so remarkably successful at it? Because to operate and expand any business needs finance, banks have a leading edge in information. Because of access to information (corporate assets, production volume, productivity, new products), they occupy the cockpit of the economy with an overview and inside knowledge that few players have. Because of the size of leading banks (in the US four banks have absorbed most lesser banks), they receive government shelter from
the storm (systemically important banks, too big to fail). Another key control device is financial innovation—such as junk bonds, mortgage backed securities (MBS), securitization, collateralized debt obligations (CDOs), derivatives, basket options (a derivative contract based on different types of assets), fintech and crypto currencies. Such innovations also serve to sabotage financial reporting. ‘Tax evasion and avoidance are big business, and finance is there to help’ (p. 132). Repackaging financial products under obtuse headings is a handy sabotage instrument. Here come the tax lawyers and accountants. Two closing chapters deal with research on derivatives and crypto currencies (‘a super tax haven’, p. 136).

In some respects, in terms of inside information (big data) and influence on participants (tweaking algorithms), big tech platforms (such as Google, Facebook) are increasingly in a similar position as big banks. Platforms such as Amazon also hoard inside data (products, prices) and can influence platform participants (ranking products, boosting their own products), though are short of government shelter.

The closing chapter 14, So What? formulates an analytical framework, in the vein of the American Pecora Report (1934), which sought to ‘protect the market’ from the shenanigans of business. In the words of Nesvetailova and Palan, their overall perspective is ‘pro-market and anti-business’ (p. 168). However, these terms are too vague to work as an analytical guide. The market doesn’t exist without business; the market is a relationship between business, other businesses and the public. The authors propose a distinction between ‘the market’ and ‘business’ (p. 170) which doesn’t hold. The categories are too wide. The emphasis should be on practices, not on units. Or, the question should be which business—in terms of size (often large), links to other business (collusion, trusts, cartels), links to power and government (contracts, licenses, lobbies, legislation) and practices. While all market forces seek to game the market to their advantage, usually only big business, businesses that introduce new products or services, businesses that cooperate, or are close to government stand a chance to succeed and draw temporary or lasting monopoly rents. Fernand Braudel drew a distinction between the market economy (where margins are small and profits are slim) and capitalism (which is based on relations between market forces and power or government, where profits can be huge). This takes myriad forms such as big corporations in the US (military-industrial complex, big tech, big pharma, big oil, big agribusiness, aircraft) and the EU, Keiretsu in Japan, chaebol in Korea, oligarchs in Russia, Eastern Europe, Kazakhstan, tycoons in Hong Kong and Singapore, well-connected family enterprises in Asia and the Middle East, and strategic groups (and families) in developing countries.

Much of what is told in this book, even if it is unethical, is actually legal, or twilight legal. Thus, a key concern is the institutional and legal frameworks in which this unfolds, in particular governance gaps. Governance gaps arise by design (lobbies, deregulation), by lack of government capacity (anti-government government keeps government small so monitoring is deficient), because of innovation (new products and services or new headings that fall outside regulatory categories). Because sabotage is ‘systemic and systematic’, because finance and innovation are ever moving targets and the odds are huge, regulation will be a never ending battle. Because it has the clarity of a clarion call on a vitally important subject this is an important book.