STATE OF POWER 2019

Finance

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The Latent, Unused Power of Citizens

and the Production of Public Collateral

Ann Pettifor

Introduction

It was just a montage of words uttered over a video in the summer of 2018. Soon the words went viral. They helped unseat a Wall St-friendly Democrat – one primed to be the next Congressional leader. They were uttered by Alexandria Ocasio-Cortez.

> This race is about people vs money. We've got people. They've got money. A New York for the many *is* possible. It doesn't take a hundred years to do this. It takes political courage.

She was right. It did not take a hundred years. All it took was one summer, political courage, a big idea – The Green New Deal – and hard graft. A Green New Deal would subordinate the financial system to the interests of society and the ecosystem, and help transform the economy away from its addiction to fossil fuels, she argued.

The big idea, her hard work and courage were all that was needed to harness latent power: the power of the people of the Bronx.

Her story will underpin the theme that follows. Citizens' latent and untapped power in countries with sound taxation systems to hold financial elites to account – and implement a Green New Deal. It can be used to transform the balance of power between the people and the private finance sector. It is power that lies in abeyance, repressed by the dominant moneyed class. But suppressed also by the narrow, myopic view that we, and our politicians, have of the potential economic power of citizens.

To harness citizens' power, it is important to understand that taxpayers have agency over global financial markets. Around the world, taxpayers subsidise, embolden and enrich centres of financial power like those of Wall St and the City of London. The bank bailouts after the Great Financial Crisis demonstrated that citizens and their publicly financed institutions have the power to protect capitalism's rentiers from the discipline of the 'free market'. Thanks to the backing and firepower provided by millions of honest, taxpaying citizens, central banks deployed immense financial power and bailed out the globalised banking system – stemming a cascade of debt deleveraging that could have contracted the money supply, credit, and economic activity and deepened the crisis.

Thanks to taxpayers, central bankers prevented another Great Depression. It was a great power deployed in the name of citizens, but without their authority – or even their knowledge. To grasp and deploy this financial power in the interests of society and the ecosystem, citizens need to understand that this was and is ultimately *our* power. It is latent power, not used by citizens to defend the public interest, but by technocrats to defend the interests of private wealth.

Money and debt

The reason for our political impotence can be found in the fog and mystery surrounding the creation of money and the operation of the monetary system. Thanks to the economics profession's neglect of money, debt and banking, there is a great deal of misunderstanding and confusion about money and the financial system. Arguments rage about whether money is just 'created out of thin air' – or whether gold or bitcoin are real money. Whether bankers and/or governments can just 'print' money ad infinitum. Or whether there are limits to the printing of money.

The ignorance and confusion is probably no accident. It helps protect the private finance sector from scrutiny: 'all the better to fleece you with' to quote the wolf in the fairy tale.

Sensible people (including the Bank of England) agree that money, as Joseph Schumpeter explained, is nothing more than a promise to pay, as in, 'I promise to pay the bearer'. As such, money is a social construct, based on trust or promises to pay and upheld by the law.

When someone applies for a loan from a bank, the money is not in the bank. Instead, licensed commercial banks 'create' money every time a borrower promises to pay. They make the loan by entering numbers into a computer, and (digitally) depositing funds into a borrower's account. The borrower promises to pay back the money created by the banker. As guarantee the borrower offers collateral, signs a contract, and agrees to pay interest on the loan.

For that trust to be upheld, the institutions that create money (licensed commercial banks) are supported and regulated by a publicly backed central bank issuing the currency. Regulation ensures that trust between banker and borrower is enforced.

Private bankers can only create new money and operate effectively as part of the monetary *system*, which includes a central bank. While commercial bankers can digitally create new money at the bidding of a borrower, they cannot print currency or mint coins. Only the central bank can do that. The central bank's great power is to issue the *currency* – sterling or the dollar or the rupee –in which new money is created. And to help determine the value of the currency.

That power can be exercised by central banks only because of the *collateral* backing the currency they create. *That collateral is made up of citizens' tax revenues*. The more taxpayers that back the currency, the sounder the tax-collection system, the greater the value of the currency.

This process is illuminated if we compare the collateral that backs up the US Federal Reserve with that of Malawi. The central bank of Malawi, like the Federal Reserve, issues a currency. But Malawi has far fewer taxpayers than the US. Thanks largely to colonialism and to IMF policies, Malawi also lacks important *public* institutions: an independent central bank; a sound tax-collection system; a system for enforcing contracts or promises to pay (criminal justice); and a well-regulated accounting system for assessing assets and liabilities. Consequently, Malawi's currency – the kwacha – has little value compared to the dollar. Even worse, due to the absence or weakness of public institutions, Malawi is reliant on *other people's money* – obtained via other monetary systems. Access to foreign monetary systems mostly takes the form of loans in dollars, sterling or yen – that are heavily conditional. While some of the money may benefit the Malawian people, the cost of repayment to foreign financial institutions invariably takes its toll on the nation's financial resources, its human and ecological assets.

It is the lack of monetary autonomy provided by sound public institutions, including a tax-collection system, that renders citizens in countries like Malawi relatively powerless, and vulnerable to predatory foreign lenders. It also explains how and why poor countries remain dependent and subordinate to rich countries. Regrettably the IMF and World Bank actively discourage low-income countries from investing in the vital public institutions essential to a sound monetary system – one that would restore their financial and economic autonomy.

Citizens in countries with sound monetary institutions and a tax-collection system enjoy considerable potential power and agency over the globalised financial system.

Taxpayers – not banks – underpin the financial system

Understanding how taxes prop up the value of a nation's currency for private financiers is a first step in understanding citizens' potential power. The world's mobile financial speculators and rentiers prefer to deal in currencies underpinned by stable *public* institutions, financed and backed by millions of taxpayers. While of course there is trading in many emerging market currencies, speculators prefer to hold sterling, dollars, euros and yen. These currencies are backed by strong economies. But their value is ultimately derived from citizens – willing, honest, law-abiding taxpayers – who provide the revenues that underpin the currency.

Taxpayers do not just pay direct and indirect taxes every day, month or year. Because new taxpayers are born every day, citizens will pay taxes for decades into the future. If our publicly financed state institutions remain stable, tomorrow's new-borns will go on paying taxes into the future.

To understand the duration of taxpayer power, it helps to look back at the history of the British financial system. Back in 1748 the British government issued perpetual bonds, which were debts with no maturity date for repayment, but which paid interest to lenders at 3 per cent each year. The government had no difficulty selling these bonds (known as 'consols') to the public. Public confidence – that the British government would fulfil its obligations to pay interest on the loans *in perpetuity* – was high. That confidence was justified, as interest was paid on the bonds each year until finally they were redeemed in 2015.

No other asset has that kind of long-term, safe backing.

Ambitious and manipulative Becky Sharp in Thackeray's classic nineteenth-century UK satirical novel *Vanity Fair* wished that she could

> exchange my position in society and all my relations for a snug sum in the Three Per Cent Consols…for so it was [wrote Thackeray] that Becky felt the Vanity of human affairs, and it was in those securities that she would have liked to cast anchor.

Becky's envy derived from the security granted to those with funds enough to invest in the British government's debt – known then, and for several centuries, as Three Per Cent Consols (shorthand for Consolidated debt). On an inheritance of £10,000 wealthy young women of the nineteenth century could live on the tidy sum of £300 a year; £25,000 would generate a comfortable £750 a year.

Public debt is an asset that earns income – just as a buy-to-let property earns rent for its owner. But while a buy-to-let investor has to sweat to maintain, advertise and rent out the asset, debt earns income *effortlessly* for the wealthy and for financiers. It does so by paying interest added at a certain percentage per year.

Unlike an investor's property, debt is light as air, intangible, invisible. The only evidence of its existence is found in database entries, numbers on a balance sheet or in words on a 'bearer bond'.

The differences do not end there. A building or property is subject to the laws of physics. It can age, crumble, or be razed to the ground. Football clubs are great assets – because fans are committed long-term, and willingly and regularly pay 'rents' to the owner of the asset, for the privilege of watching their team, or by buying a club T-shirt. But clubs can lose value by falling down league tables. Works of art – say a Rembrandt painting – are assets with greater longevity, but are also likely to deteriorate, and in any case, are subject to the whims of fashion.

Not so the government bonds of countries like Britain. While sovereign debts can be defaulted on, safe government debts do not rot with age, as Professor Frederick Soddy (1877–1956) once explained. That is because debts are not subject to the laws of thermodynamics, but to the laws of mathematics. As such, debt effortlessly earns income for investors, at mathematical rates. And if the debt is the safe public debt of nations like Britain, the US or Japan, it can do so for a long, fixed period of time.

The British government has since 1694 honoured its debt obligations without fail. In a world of globalised capital flows in which capital sloshes from one part of the world to another, the price of UK government bonds may rise and fall, but their safety and longevity is never in question. That is because the system is managed by *public authority*, not left to 'the invisible hand' – but mainly because most British citizens regularly and faithfully pay taxes.

It's the collateral, stupid.

And to understand why safety is such a big issue for the private finance sector, remember this: the global financial system froze in August 2007 and then collapsed. Not because financiers ran out of money. Not because of a run on the banks. But because everyone in the sector – everyone – lost confidence in the value of assets used as collateral, particularly the value of sub-prime property mortgages[1] on bank balance sheets. Why did that matter? Because the value of sub-prime assets (mortgages) had been used to leverage inordinate amounts of *additional* finance through borrowing. If the asset or collateral against which the borrowing had been leveraged was worthless – then the leveraged debt was unlikely to be repaid from the sale of the promised sub-prime collateral.

The collapse of confidence in asset values (or collateral) led to the collapse of the globalised financial system.

And that is where we, citizen taxpayers, came in. Citizen collateral, in the form of tax revenues, did not collapse in value in the crisis. Instead public collateral maintained the authority of central banks, and gave them the power to issue new central bank money (liquidity) in exchange for assets from private bankers. The process was called Quantitative Easing (QE). The backing of taxpayers enabled central bankers to bail out Wall St and the City of London. The safety and soundness of our taxes upheld the value of currencies, despite the crisis. This was most evident in the US. Even as the global economy tanked, and financial turmoil soared, the value of the dollar rose.

Central banks used the collateral power provided by citizens to leverage vast amounts of central bank money – about $16 trillion – to bail out the global banking system.

Public debt as a gift to financiers and rentiers

To fully understand the power wielded by central bankers, it is important to understand that each time the government applies for a loan, or issues a bond, it creates a debt – or *liability* – for the government. At the same time, by borrowing, the government creates a valuable financial *asset* for the private sector.

Governments regularly (once or twice a month) invite pension funds, insurance companies and other private financiers to finance their bonds or loans, in exchange for promises to pay interest annually, and to repay the principal in full at the end of the term of the loan (bond). This process is in effect no different from a woman seeking a mortgage. She invites a banker to accept her 'bond' or promise to repay in exchange for new finance, backs this up with collateral, and commits to pay interest annually and the principal in full at the end of the loan's term.

Once the commercial banker has issued the finance and accepted the bond, the woman has a liability – to repay the bond. The banker on the other hand, has an 'asset' – the woman's *bond* or mortgage. It is valuable to the private bank because unlike gold the loan generates income for every year that the woman pays interest. It is probably backed by the collateral of her existing apartment. Plus, the principal on her loan will probably be worth more in real terms when it is finally repaid.

Governments raise finance from both the private finance sector, or from a central bank, in just the same way as an ordinary borrower raises money from a commercial bank. The government promises to pay interest, and offers collateral. The difference between a government's bond and the woman's mortgage is that a bond issued by a government with a good record of repayment is a more valuable asset. As such it serves as vital collateral (or 'plumbing') for the private financial system. The woman's mortgage is also an asset, but will be less valuable because she may not have established a good credit record, and may be backed by just one income (her own). The government by contrast, is backed by a revenue stream from millions of taxpayers.

That explains why government bonds (or government debt) are extremely valuable assets for the private finance sector. They are safe and reliable. They generate income (interest payments) on a regular basis. Debt as a *security* or asset can be used to borrow (or '*leverage*') additional finance. Just as the ownership of a property enables a homeowner to re-mortgage and raise additional sums secured against that property, so safe, valuable financial assets act as *collateral* for the raising of additional finance. Newly borrowed money, guaranteed against either the original debt/collateral, or against the stream of interest payments derived from the debt, can then be invested, or lent on at a higher rate of return.

To understand leverage, think of a homeowner who borrows £80,000 against a property worth £100,000 with just £20,000 in equity or capital. She has a leverage ratio of four. In other words, she has borrowed four times the equity/capital in her asset. At the time of its bankruptcy Lehman Brothers was said to have a leverage ratio of 44. That's like having an asset that earns £10,000 a year, and then taking out a £440,000 loan secured against it, to go on a gambling spree. According to the Bank for International Settlements, Wall St's investment banks started with a leverage ratio of 22 in 1990, which rose to 'the dizzy height of 48 at the peak'.

Leverage on that scale is most easily achieved against collateral that is as safe as public debt. The scale of wealth generated would be unimaginable to a present-day Croesus.

Shadow banking and the collateral factory

There is another aspect to safe, public collateral not widely understood. That is how it is used in the shadow banking system – the private financial system that operates in the financial 'stratosphere', beyond the reach of states and regulatory democracy. Non-regulated bank-like entities that have scooped up the world's savings (e.g. asset management funds, pension funds, insurance companies) hold vast quantities of cash. BlackRock for example, has $6 trillion in assets. These sums cannot safely be deposited in a traditional bank, where only a limited amount is guaranteed by governments. So to protect the value of the cash, the asset management fund will, for example, make a temporary loan of *cash* to another in need of it, in exchange for, or guaranteed by, collateral. This exchange is known as a *repo* – or repurchase arrangement.

As Daniela Gabor has argued, the US and European repo markets, the largest in the world, are built on government debt. In other words, 'the state has become a collateral factory for shadow banking'. [2]

The risks of this unregulated market for the global financial system, are scary. One reason is that while someone operating in the real world, say a homeowner, may only once be able to re-mortgage her asset or property, unregulated shadow bankers can use a single unit of collateral to re-leverage a number of times. Manmohan Singh of the IMF has estimated that by late 2007 collateral 'churned,' or was used roughly three times to leverage additional borrowing in speculative markets.[3]

That's like using the value of a single asset – one's property – to guarantee additional borrowing from three different banks. In the real world of financial regulation, homeowners are not allowed to do this.

If we are to understand the history of how the rich have become immensely, grotesquely richer on *unearned* income, while *earned* income has fallen in real terms, leverage ratios against public assets in the both the real and shadow banking sectors explain a great deal.

In short, the ability to regularly drain a government of interest payments, and to use the asset of public debt to leverage additional finance, is why asset management firms, private equity corporations, insurance companies, pension funds and financial speculators have massively increased their capital gains. It is also why secure government debt is in such demand. Private financiers can't get enough safe government bonds – or public debt.

The shortage of public debt

The Great Financial Crisis (GFC) triggered a flight away from private debt and to the safety of public debt – especially the safest – British, European and US debt.

This huge financial shock of the GFC led to a massive contraction of the global money supply, and threatened deflation – a generalised fall in prices – which would in turn lead to bankruptcies, unemployment and wage cuts. To counteract that threat, central banks – on our behalf – expanded their balance sheets and, in exchange for collateral (much of which was dodgy or 'toxic'), provided extraordinary levels of new credit or liquidity to the private financial system. In the process, civil servant technocrats in central banks protected free-market players from bankruptcy and the discipline of the free market – dealing a considerable blow to the ideology.

The deflation shock cried out for a massive fiscal response. There was an initial, but limited fiscal expansion, which led to what Credit Suisse called a 'flood of safe collateral that caused *public* shadow money (Treasuries, mortgage-backed securities, US government agencies) to soar, fully offsetting the contraction in *private* shadow money (corporate bonds, asset-backed securities, and non-agency mortgages)'.[4]

As a result of the panicky demand for public debt, the price of government bonds rose, and because of the way the bond market operates, the yield ('interest rate') on bonds fell dramatically. Demand for public debt, greatly eased government borrowing (interest) costs.

Austerity

Pretty soon though, politicians and officials in government treasuries, cheered on by orthodox economists, right-wing think tanks and the media, fell back on neoliberal or ordoliberal theory, and imposed fiscal contraction – or austerity. Public investment – government spending – was either slashed or prevented from rising. These double standards – the expansion of finance for the private finance sector, and contraction for the public sector – are intrinsic to orthodox economics, but seldom challenged by the economics profession.

As a result the production of government collateral (public debt) fell.

Austerity and the simultaneous wage freezes and cuts at first worsened the crisis. Since 2010, austerity has both prolonged the crisis, and held back recovery in the US and Europe. The effect of this backward economic policy was to increase insecure, low-paid, low-skilled and unproductive employment, while lowering wages across the board.

In the US, while the initial Obama-led stimulus stabilised the economy, it was insufficient to restore long-term stability. Instead there were severe state and local government spending cuts, households were left to retrench after the sub-prime trauma, and wages fell in real terms. Between 2009 and 2014, inflation-adjusted wages in the US were flat or falling across a range of available wage measures. More recently, real wages grew, but growth rates for recovery as a whole still trail far behind the 2.0–2.2 per cent annual rates from 1947 to1979.[5]

As a result of austerity, the issuance of safe government debt contracted. Why should this matter? Because the low supply of government debt tends to boost (in fact, crowds in) the creation of *unsafe* private debt, or assets. These unsafe *private* assets are used instead by the banking and shadow banking system to expand borrowing and credit. Central banks rightly worry that such credit expansion on unregulated, dodgy assets will probably lead to another financial crisis.

Viewing public debt through the wrong end of a telescope

Understanding the value of public debt changes our view of it. Like a loan undertaken for a project that will create employment and generate income, public debt, if invested in productive activity, is a good thing. It generates income. Not just salaries and wages for those employed; not just profits for the private sector when salaries are spent on their goods and services; but also tax revenues. Income, corporation and consumer tax revenues, then used by government to repay the debt.

Public borrowing and spending are especially important after a crisis, when the private sector is weak, and lacks the confidence to borrow, invest and spend. Yet most Chicago-school economists view public debt as a threat to the economy. Governments that cannot 'balance the books' are regarded as incompetent and hounded by the media. Hostility to public debt varies, but fear is embedded in the German psyche, because the word for debt – 'Schuld' – is the same as the word for 'guilt'. Saint Matthew's 'forgive us our debts as we forgive our debtors' was interpreted by Saint Luke as 'forgive us our sins as we forgive those that sin against us'.

Guilt, sin and the public debt are deeply intertwined, but only in the minds of economists, journalists and the public. Debt becomes something quite different in the minds of financiers and rentiers. To Wall St. and the City of London, the safe public debt of Britain, Europe and the US is a truly awesome and even phenomenal gift.

They cannot get enough of it.

Until we fully grasp the importance of public debt to the finance sector, immensely wealthy, globalised corporations will continue to parasitically extract rent from public assets; inequality worldwide will continue to widen; and we, the many, will become relatively poorer and powerless.

When enough of us do come to understand this latent power, we will discover that another world really *is* possible.

Social democrats and the financial system

At the heart of neoliberal ideology – ideas shared by those that economic historian Quinn Slobodian defines as 'globalists' – is the belief that the state must shrink as a share of the economy. Second, that private capital markets must remain 'free' to roam globally and without friction. In other words, globalised capital markets must have the 'freedom' to be detached from the world's states, and from democratic regulation.

As explained above, the deep irony of the ideological obsession with self-regulating capital markets, austerity and the shrinking of the state is that private financial markets cannot function *without* the backing of governments, their taxpayers, and the safety of public debt.

The 'timid mouse' that is the private finance sector cannot operate without the protection of the 'roaring lion' that is the public sector, to quote Mariana Mazzucato.[6]

Given that safe public assets are so fundamental to the stability of the private financial system, why would right-wing politicians and officials contract their supply? The answer can only be: ignorance, fed by ideology opposed to the collective role of the state.

But what of the left? The Great Financial Crisis was met with shock and disbelief on the left. While many progressive economists had focused on the domestic, tangible economy – the state, markets, labour and trade – they largely ignored the intangible economy, the globalised finance sector.

In the meantime, many had embraced 'globalisation' – the ability to travel widely and draw money in any part of the globe; the ease with which globalisation facilitated the import of exotic fruits and vegetables; cheap smartphones; and the gifts bestowed by technology on the globalised system. These were all met with enthusiasm by social democratic parties that turned a blind eye to a global, deregulated financial system that both facilitated these activities, but also threatened systemic failure.

As a result, the left had no coherent response to the collapse of globalised capital markets. Throughout the period of austerity, the left – both in the US and Europe – found itself on the back foot, defensive of social democratic governments that had built up debts as a result of the Great Financial Crisis. Social democratic governments endorsed both QE for bankers and austerity for the majority. This approach guaranteed their downfall, and even extinction. (The French Socialist Party no longer exists as a political force or organisation, and was obliged to sell off its own headquarters.)

These failures weakened the ability of the left to argue that at a time of catastrophic private economic failure, public investment in jobs was essential to restore social, political and economic stability. Instead taxpayer-backed subsidies and assets were deployed by central banks via QE to protect private profits and capital gains.

No wonder the public revolted.

What is to be done?

A first in the many steps that must be taken to transform the economy is understanding. People cannot act to transform what they do not understand. Understanding how taxpayers guarantee and endorse the activities of the globalised, deregulated private financial sector, must be more widespread. Only then can we begin to demand 'terms and conditions' for public subsidies and guarantees – and to use that power to regulate and subordinate the globalised financial sector to the interests of society as a whole. To demand that public financial assets be used for public, not private benefit.

This understanding is fundamental if we are to respond to the greatest security threat facing humanity: climate breakdown.

Armed with understanding, we will then need a plan. The Green New Deal is such a plan.

The Green New Deal

The genius of Alexandria Ocasio Cortez's Green New Deal is that it provides a broad, comprehensive plan to transform the US economy and tackle climate breakdown. If the efforts of US Democrats led to an internationally coordinated campaign to implement it, the plan has the potential to transform many economies around the world, and to ensure a liveable planet in the future.

But – and it's a big but – a comprehensive plan for economic transformation will require financing on a grand scale, comparable to that of a nation embarking on war. We know that can be done. Governments have always found money to finance wars.

Back in 1933, President Franklin D. Roosevelt's plan – the New Deal - found money to fight a war against unemployment and poverty. His administration did so by overturning neoliberal economics, and implementing Keynesian monetary theory and policies. By ensuring that the monetary and financial system was managed by public, not private authority, his government raised the financing needed to lead the US out of the economic catastrophe of the Great Depression. Roosevelt's New Deal not only created jobs and generated national income. It also tackled the ecological catastrophe that was The Dust Bowl.

Implementation of the New Deal was achieved first, because the Roosevelt's administration had a clear understanding of the nature of money, and of the publicly backed monetary system. But its success in tackling Wall St interests was down to political mobilisation, organisation and action. Roosevelt had the political courage and the political ballast to confront, and subordinate the interests of Wall St to those of society and the environment.

Any international movement for a Green New Deal will have to summon up the same political courage in countries around the world. Campaigners will have to mobilise, organise and act to renounce the economic ideology that allows the 1% to grow fantastically rich on taxpayer-backed subsidies, bailouts and guarantees – while denying financial resources for public investment, economic and ecological transformation.

Campaigners will have to discover, and then deploy, their latent power to subordinate global finance to the interests of society and the ecosystem.

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ABOUT THE AUTHOR

Ann Pettifor is a political economist, author and public speaker on the global financial & economic system, on money, monetary policy, and on the UK economy. Her latest book, *The Production of Money* (Verso 2017) explains the nature of money and the monetary system. She is one of the few economists to have predicted the 2008 economic crisis. During the late 1990s, she led a campaign, Jubilee 2000, which as part of an international movement resulted ultimately in the cancellation of approximately $100 billion of debt owed by the poorest countries. She is currently director of PRIME (Policy Research in Macroeconomics) a network of economists that promote Keynes's monetary theory and policies, and that focus on the role of the finance sector in the economy.

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Battling Bankers

Insights on financial power from the grassroots

Interview with Simona Levi, Alvin Mosioma and Joel Benjamin

Worldwide, countless activists are engaged in challenging unjust financial power on a daily basis. Few are financial experts or economists but citizens who through their struggles have gained an understanding of financial power that few academics can rival.

TNI had the privilege of talking to three warriors against the international banking cartel – a theatre director in Spain, a tax justice leader in Kenya and a local government campaigner in the UK – to hear about their struggles and the insights they have picked up that have relevance to all of us.

Simona Levi, a theatre director and performance artist, is based in Barcelona. With her small group Xnet, she succeeded in getting former IMF chief and Bankia executive Rato and 17 others sentenced to prison in 2018 for their financial crimes and role in Spain's economic crisis.

Alvin Mosioma is based in Nairobi and with others stopped a tax avoidance treaty between Kenya and Mauritius. He helped organise the first World Social Forum in Kenya and is the founding Executive Director of Tax Justice Network-Africa.

Joel Benjamin is based in London. His work with Debt Resistance UK has exposed a slew of toxic loans sold under false pretences to local authorities and has prompted major lawsuits, parliamentary enquiries and extensive media coverage.

What finance-related campaigns are you involved in right now?

Alvin: Our work revolves around how to ensure finance works for people. In other words ensuring that those who have higher incomes are contributing to social wellbeing and state services through taxation.

In terms of campaigns, there are two big ones we are focused on. In 2015, we launched a campaign, Stop the Bleeding, to focus on tax avoidance by transnational corporations. Our message was simple: the African continent is not poor, but it is being bled through the financial system that allows resources to flow out of continent.

We are also currently fighting against proposals to set up a Nairobi International Financial Centre. This is touted as Kenya's effort to take advantage of its strong financial position in Eastern Africa and to try to facilitate investment in region. There is a major risk of creating another tax haven like Mauritius and Dubai which would have negative impact on Kenya's economy and region. In fact, the main advisors for the project come from the City of London and from their pronouncements it is clear that is what they want to happen.

Joel: For the last five years, my main focus has been a campaign calling for a citizen debt audit of municipal finance. We are particularly looking at loans offering to municipal authorities, known as 'Lender Option, Borrower Option' loans or LOBO, which suitably stands for wolf in Spanish.

These expensive risky loans were mis-sold to local authorities claiming 220 victims and totaling £660 billion pounds of debt. They were very much a parallel to the sub-prime mortgage market

Simona: To bring down the bankers we created a platform called 15MparaRato. We launched our campaign in 2012 after the first bailout of banks in Spain. It was prompted by a graphic I saw in a newspaper that showed half of the bailout was going to just one bank, Bankia – €5 billion out of €10 billion – money that should have gone to welfare, to social needs.

The president of this bank was the former minister of economy and director of the IMF, Rodrigo Rato. We couldn't permit it. So we set out with four objectives. First, to recover money of bailout for those who lost their investments. Second, to bring those responsible to be brought to justice. Third, to end impunity for financial crimes. And fourth, to show that individuals responsible were not isolated criminals, but part of a system taking money from the people.

We launched our campaign without any evidence; just evidence of a bank bailout and the sure belief that the bankers were responsible. We demanded a legal investigation, initiated a lawsuit and started our own investigations by calling for crowdfunding and by providing a secure means for whistleblowers to provide evidence. Within a year we had clear evidence of falsified accounts and deliberate mis-selling of risky products to customers.

Tell us about your biggest successes to date. Why do you think you were successful?

Simona: Our campaign was very successful. It not only put Rodrigo Rato in prison along with 17 others, it has recovered money and showed people that this corruption was systemic. I think one clear tactical decision was to go for the people at the top, and not the bank itself.

Many activists said the crisis was the responsibility of the whole system. I agree it's important to keep the big picture always - because we all need a picture of the situation we find ourselves in – but we felt we needed to hone in one person and that Rodrigo Rato was the ideal target.

Rato represented all the elements of the financial system – he was the director of the *Bankia* bank that was one of the first to be bailed out, a Minister for the Economy, a director of the IMF and he was part of the setting up of the scam to sell toxic financial products only to poor people.

He represented the revolving door between the public and private sphere, the system set up to rob us. He was frequently touted as a future prime minister, a personification of the 'Spanish miracle' touted by the Right so was the perfect connector/hub for unveiling this whole crisis.

So we focused the campaign on bringing him to justice. Some activists and mansplainers opposed us. But the art of war involves going for one winnable target at a time. First, because we have many enemies, so we have to be realistic. And second, because while we need analysis, we also need tactics and concrete targets, just as guerrilla movements do. Third because, as we proved, you go for one to get them all. We had over 60 people on trial from all the political parties, including Podemos.

Alvin: In terms of Kenya, one victory was when we went to court in 2014 to sue the government over its double tax agreement with Mauritius. This is an agreement signed by two countries that allows companies in two jurisdictions to not be taxed twice. What we realised is the way these agreements are crafted, it ends up often that companies are double non-taxed, in other words not paying tax in either countries.

So for example you may find a British company wanting to work in Kenya registers in Mauritius, so it appears as a Mauritius company which means it doesn't pay capital gains tax in Kenya, but in fact it's not collected in Mauritius either. The treaty was not just pushed by foreign investors but also the Kenyan business elite which would have allowed them to move their investments offshore.

Through our efforts, we stopped that treaty and helped expose the problem, assisted by the coverage that came out of the Panama Papers. It requires lots of education and training as financial issues are often quite complex. So we try to demystify it and identify particular opportunities for change depending on context, countries, constitutional arrangements, working through particular members of parliament, media and so on.

Joel: There have been many victories along the way and it has come in waves but I think the first big victory happened when the investigative TV series, C4 Dispatches, did a documentary in July 2015 on 'LOBO' bank loans. This led to a parliamentary inquiry into the issue, although this eventually wrapped up without any serious investigation or follow-up.

In February and March 2016 following publication of a joint letter signed by John McDonnell MP, Caroline Lucas MP and around 30 local government councillors, we got coverage in the *Financial Times, Evening Standard* and *The Independent* which led to calls for a Treasury select committee enquiry.

Another Eureka – more local – moment was when we decided to focus our attention on one of the poorest boroughs in the UK – Newham – which has very high rates of child poverty and social deprivation. Newham hosted the Olympic games in 2012, yet economic growth has completely passed the community by, in part because of the £80-90 million spent on interest payments a year servicing the council's loans. This was equivalent to 120% of what the city was able to raise with council taxes.

Our campaign tapped into Newham residents' observations on what was working and not working in the neighbourhoods. It cut through the complexity of the loans, with everyone able to see money going to banks with the public having no say on the loans. This led to an uptake in interest, invitations to meetings and local media coverage.

Our campaign worked with three councillors and after 3 years campaigning to challenge the Mayor's dire financial record, was a significant factor in replacing the mayor with Rokhsana Fiaz, the first elected BME woman mayor in London in May 2018, who vowed to take on the banks through the courts.

From your perspective and experience, what are the key pillars of financial power and why has it become so powerful?

Alvin: I think its power comes from how it permeates all sectors. We live in an age where everything has been financialised. So an oil or commodities trader is not just selling oil, but making more money through financialisation – bonds, derivatives and other instruments. Through clicks of buttons, people are making major decisions that affect everyone.

It makes the financial sector prone to abuse and very powerful as we saw so clearly in the crisis after 2008. Its power also comes from how it is organised globally and concentrated power and interests. The banking sector is oligopolistic, which has given it huge power to determine policy direction and not for the public good.

You see that in the revolving door between finance and government. Business executives enter politics and then head back out into business sector, which has led to a huge intermingling of power between corporate sector and politics, leaving citizens' interests out of the picture.

Simona: I am a good campaigner but not an expert on finance. The national context though does shape how you can fight. In Spain, corruption is very clearly embedded within political parties including left parties – a mafia-type politics – but is not embedded within the population. In Italy, by contrast, corruption functions more like an ecosystem in which many more people can benefit. Politicians will try to involve people to tie them into the power structures.

But in both places, financial power is based on an extractive relationship which treats people as primary materials and which funnels money to the revolving cupola of finance and political power.

Bankia – Rodrigo Rato's bank in Spain is a typical example. It is a hybrid private-public financial institution which includes political representatives and half of its money goes to politicians. It operates like a mafia and I don't mean that as a metaphor.

Joel: The political power that finance has is key. The City of London has several hundred lobbyists constantly promoting their interests. This compares with NGOs who only have a few staff. There is no parity. There is a constantly revolving door between audit firms, banks, politics and media.

Take Rona Fairhead for example. She was a director at HSBC bank, then became chair of the BBC Trust and is now a government minister of trade. Her route was not unusual from banking to media as it enabled banking interests to defend financial services at a time they were publicly toxic. It is an issue of elite interests protecting elite interests.

Big banks have a captive market that ensnares politicians, media and auditors alike. Auditors for example get more money from auditing banks than councils, and more from advising on tax evasion than auditing company accounts. Public officials not only are deeply embedded with the financial sector where even the auditors are complicit, but don't want to admit responsibility and mistakes. So no-one is prepared to say we have a problem, being more concerned with reputation than protecting and serving the public interest.

It meant that in the 2015 General Elections, seven years after the financial crisis, not one political party in the UK was yet talking seriously about policies for financial reform. It is a closed shop.

So we have been forced to use every tool at our disposal to break this power – our own citizen audits, social media, parliamentary allies and so on. We get moments of media interest and progress, then the door is slammed shut again.

How as activists do we deal with the complexity and opacity of finance?

Alvin: Opacity and secrecy is the lifeblood of current financial system. I believe the complex tools that only insiders understand is a deliberate effort to avoid regulation. But the question is not only how to regulate them but also the political will to do so.

If you look at the US, how finance and money dominates elections and shaping the ability to regulate, you see where this is going and we see it across Africa. The revolving door and the financial-political oligopoly are becoming more entrenched.

How you overcome that is the million-dollar question. But if opacity is at the heart of the system, one key response is shedding more light on the dark rooms and murky waters of finance. So transparency is instrumental and key.

There are simple solutions with powerful effects like requiring companies to make their ownership structures publicly available so we can see who is benefiting. We can also invest in institutional strengthening of regulatory authorities that provide oversight, whether they are parliamentary committees, regulatory authorities or offices of auditor general. The trouble here is that these are often shooting at a moving target, as financiers hire the best brains to escape regulation so we are always playing catch-up.

Simona: I know nothing about finance, but this is not a system that we can't understand. In fact most of the people who were siphoning off the wealth understand even less. In Spain, you only have to be born into a banking family to be a banker.

In 2013, as part of the investigation, we got a leak of 8000 emails, the so-called 'Blesa Black Card' emails which showed that bank executives used corporate credit cards not only for lavish goods and holidays, but also to pay off politicians and trade union leaders from every party and sector.

They also showed that many bank executives don't even properly understand balances. And they were blind to the crisis they were creating. Again in the "Blesa emails", you can barely find references to the word 'crisis'. You would hear it more in one hour in any bar in Spain than in their own conversations.

We have recently done a play where we just reuse the words in those emails, which has been watched by over tens of thousands of people. And even if we have different levels of knowledge, no-one has a problem understanding what happened.

Joel: I was not a financial expert either. I had to educate myself on loans and lending. I was assisted by financial experts who gave their time providing advice. This helped us get past the initial stage where we were just fishing for information without knowing exactly what we should ask for.

It took 6 months experimentation and trial-and-error before we knew the key questions to ask in our Freedom of Information requests. But once we had these, we were able to start obtaining and publishing bank loan contracts in an open source database and the findings eventually coalesced into a campaign in 2014 by Debt Resistance UK.

Why have we failed to rein in financial power, even after the 2008 crisis? Where should activists focus their efforts?

Alvin: I think the reason why the financial system has continued as it did, is because we didn't disrupt the power dynamics that informs policy direction. We didn't break the incestuous relationship between finance and politics. That needs to be our focus.

If you look at countries where finance has less of a hold over politics and policy, it is where the relationship is more separated. We need to try as much as possible to separate these two entities, to weaken their power of organising. That involves working on agenda of stopping 'too big to fail' banks, for example, or preventing politicians working in private sector for periods of time prior to or after political office, making it mandatory for political parties to reveal their financing.

Without weakening their hold on politics, we have a very poor chance in Africa or globally.

Joel: One game-changer could be citizens winning the right to access and review any contracts signed with state. This could lead to changes in auditing companies, start to challenge outsourcing (which goes hand-in-hand with financialisation), and start to confront the power of large monopolies. We have an opportunity - given the high profile failures of audit companies, for example in the recent case in the UK of Carillion - to push for these kind of changes.

Another issue that needs to be on the radar is the application and enforcement of the EU duty of good faith, which should be imposed on all dealings between financial firms and clients given the history of mis-selling. London is a global power in finance, and people wrongly assume that products sold here are sold in good faith, but legally all responsibility lies with the buyer. It's a perfect system for financiers to abuse less powerful and knowledgeable clients.

Until we have equality of law and can assert peoples' rights on finance, abuses will continue.

Simona: We need first to dismantle the format and architecture of political parties. All of the parties including Podemos are clientelistic and disempower people, asking support in return for favours. If we insist on an intermediary between *demos* and power, democracy won't improve and will always remain a traffic in influences.

We also must advance a plan for citizens' control of financial flows. Introduce a system of transparent democracy into our financial system to allow a peer control of financial flows. There are some important campaigns in this area looking at how wealth, such as flows going to transnational corporations should have the same controls and transparency as states and localities in their management of financial resources.

In fighting for these things, we must also be more astute and less naive. There is a big lie in social movements that 'United, people won't be defeated' but the truth is that as we get bigger and unite with others we always get defeated. Unity ends up polluting movements, destroying projects, leading to platforms that are 90% junk and shit. It is far better to work in small groups, to be wise, to always collaborate but never unite until you are sure of unanimity. We must destroy the myth of unity, which nearly always ends in divorce and nothing else.

How can finance be changed so it really serves people and planet?

Alvin: We need to re-imagine the role of state, the role of business. We have to turn the neoliberal idea that states are there to serve business on its head. Business is there to serve humanity. This requires a total paradigm shift.

We have not been bold enough, perhaps because after the collapse of the USSR and the triumph of the capitalist order, we became resigned to the narrative of there being 'no alternative'. And we have seen countries that tried to re-imagine face a big backlash because of the huge power of capital over politics.

But until we change the narrative and imagine a reconfigured global system designed to serve humanity (rather than business) we will be tinkering at the edges. Perhaps moving two steps forward sometimes, but then five steps back.

Perhaps this won't happen until we have another even bigger crisis. But I also see signs of change. Even among institutions that have been standard bearers of neoliberal thinking, such as the IMF and World Bank, there seems to be a realisation at the costs of the system. They are being forced to talk in a new language. It gives me hope that there is light at the end of the tunnel.

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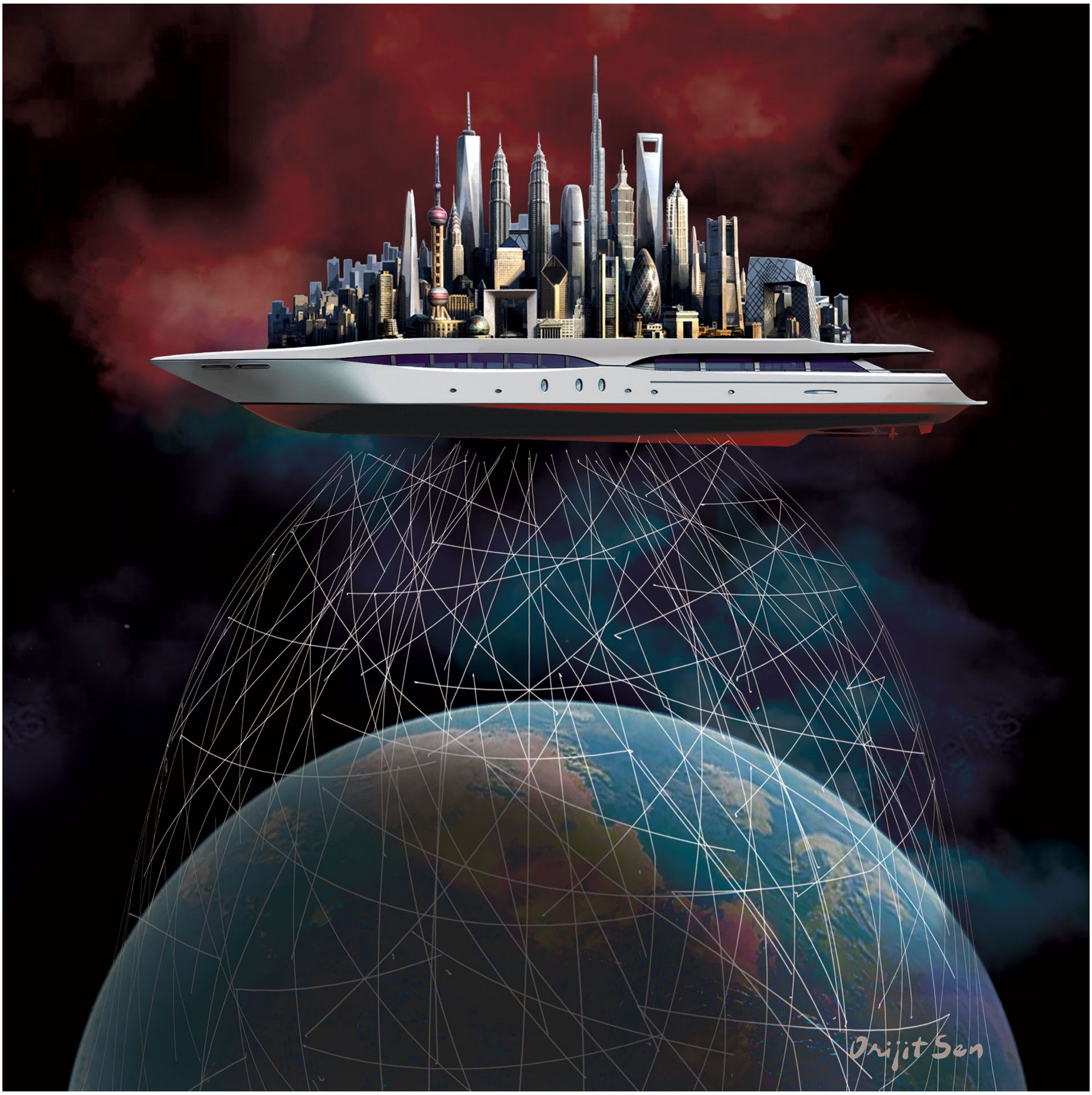
STATE OF POWER 2019

Offshore Finance

How Capital Rules the World

Reijer Hendrikse and Rodrigo Fernandez



> Capitalism only triumphs when it becomes identified with the state, when it becomes the state.[1]

Introduction

Following the election of Donald Trump and claims of Russian meddling during his campaign, a privatisation deal of Russia's state-owned oil company Rosneft caught the media's attention: despite sanctions, some €10 billion had been invested in Rosneft via a Singapore-based shell company, representing a 20 per cent stake in the oil giant. Rosneft argued that the investment was a simple joint venture between the Qatari Investment Authority and Swiss oil trader Glencore, but the numbers simply did not add up. Yet there is no way of knowing who owns the Rosneft stake, because the ownership is hidden in a Cayman Island's shell company. 'Like many large deals, the Rosneft privatisation uses a structure of shell companies owning shell companies'[2] across offshore jurisdictions. In this case it left a dead-end paper trail from Qatar and Switzerland to a company in Singapore, which is owned by a London-based firm, itself controlled by a mailbox in the Caymans, registered at the address of a prestigious law firm. Although the deal remains a mystery, it shows how the rich and powerful hide and transfer their assets, including large transactions of geopolitical significance, in complete anonymity.[3]

This essay focuses on the murky financial realm known as *offshore finance.* It shows that offshore finance is not solely about capital moving beyond the reach of states, but involves the rampant *unbundling and commercialisation of state sovereignty* itself. [4] Offshore jurisdictions effectively cultivate two parallel legal regimes. On the one hand, we have the standard regulated and taxed space for domestic citizens in which we all live, on the other we have an 'extraterritorial' secretive offshore space exclusively maintained for foreign businesses and billionaires, or *non-resident* capital, comprising 'a set of juridical realms marked by more or less withdrawal of regulation and taxation'.[5] This offshore world is a state-created legal space at the core of the global financial system, and hence global capitalism, housing the world's major capital stocks, flows and property claims with the goal of protecting wealth and financial returns. Viewed as an integrated system, it is a curious sovereign creature capable of exerting a political-economic authority similar to imperial powers of the past.

Some call it *Moneyland*,[6] others see a return to feudal times. The offshore world could also be compared to the two-tiered architecture of imperial *Panem* in Suzanne Collin's dystopian *Hunger Games* trilogy, which is said to reflect the workings of the Roman empire. Specifically, the present international system of states might be compared with Panem's troubled 'districts', where ordinary citizens are territorially enclosed and forced to pay hefty 'tributes', while the exclusive offshore world resembles aspects of Panem's mighty capital city – the *Capitol* - where its affluent ruling class are exempt from austerity, taxation and authoritarian rule, living from the wealth created by others.

We focus on so-called *offshore financial centres* (OFC) as the building blocks of offshore finance. These centres are defined as 'a country or jurisdiction that provides financial services to nonresidents on a scale that is incommensurate with the size and the financing of its domestic economy'.[7] Besides functioning as tax havens or secrecy jurisdictions, OFCs are used as platforms for acquiring debt, structuring funds, company formation, investment protection, and so forth. Depending on the definition, up to 100 jurisdictions worldwide can be classified as OFCs. These might function as 'conduit' and 'sink' jurisdictions, intermediate or final destinations for mobile capital.[8] As OFCs increasingly cultivate niche strategies, their subcategories have become ever more specific: while some are focused on providing secrecy and wealth protection to conceal illicit money, others cater for corporations and banks seeking 'light touch' regulatory stepping stones to arrange global financial flows. The budding variety in specialisations complicates a uniform comparative framework to study distinctive offshore centres. Notwithstanding these differences, the essential fact is that offshore finance ultimately constitutes *a globally integrated space* operating beyond the control of any individual state.

This essay details the history, geography, mechanisms, enablers and inhabitants of the offshore world. Our account shows how the *global* economy is manufactured through *national* politics or, to paraphrase the erstwhile Nazi jurist Carl Schmitt, how the economic world of property (*dominium*) is built through political sovereignty (*imperium*). This focus also allows us to counter the idea that the many nationalists currently rising across the world are 'challengers' to the global order. On the contrary, our counter perspective considers the global rise of authoritarian nationalism to be a logical *continuation* of the neoliberal project. Understanding how financial power is typically fused with, and ultimately couched in, state power also means rethinking ideological divides between public and private spheres; between political and economic domains; or between state and market.[9] For in the offshore world – the mighty Capitol of our age - financialised and hypermobile global capital effectively *is* the state.

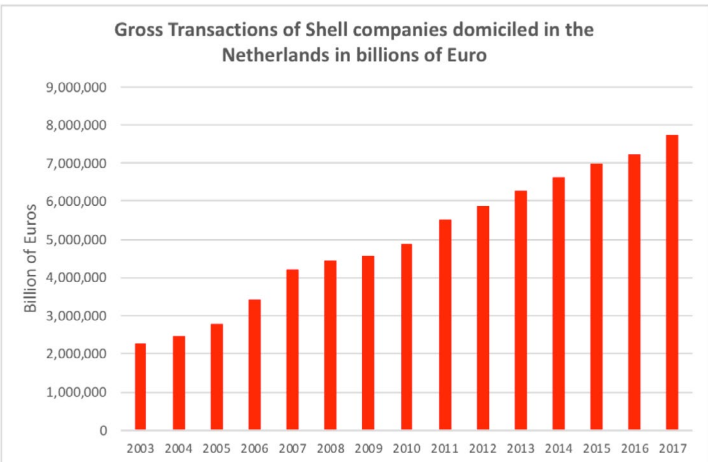
A Short History

Although tax evasion and asset protection occurred in ancient times, the Middle Ages and beyond, the global rise of offshore finance coincided with a number of late nineteenth-century legal innovations. Notably, the birth of the *private* corporation as 'natural person' is traced back to this period, as leading capitalist states liberalised the right to incorporate a company – a right which until then was exclusively chartered by sovereign decree.[10] This development ignited the rise of large *multi*-national corporations (MNCs), which challenged the emerging inter-*national* legal order in which states wield exclusive territorial power.[11] The tension between national territorial 'enclosure' and global capital mobility, increasingly organised via complex multinational corporate structures, triggered additional legal innovations. In particular, the creation of mailbox or shell companies, i.e. legal entities with no substantial material presence, opened Pandora's box, as MNCs could henceforth locate themselves in another jurisdiction *without* physically relocating their actual activities. The right of incorporation, in other words, quickly turned into fictional bookkeeping devices. Another crucial building block underpinning offshore finance was the *bilateral* allocation of tax rights between states, anchoring capital mobility in a set of tax treaties during the 1920s that distinguished between a host country – the jurisdiction of economic activity – and a home country – the domicile of the owner, investor or corporate headquarters. This arrangement separated tax rights along the lines of capital-importing and capital-exporting countries, reflecting power relations at the time, with the United Kingdom and the United States as leading capital exporters. These principles remain fundamental to today's bilateral patchwork of more than 3,000 tax treaties, enabling the contemporary offshore world to mature.

Although the post-war era was initially defined by an international regime in which states exerted considerable control over their domestic economies, requiring capital controls to curtail cross-border finance, the late 1950s saw the first cracks in this regime, heralding a key moment in the global ascent of offshore finance. In 1957 the Bank of England decided that *foreign* currency exchange between *non-resident* lenders and borrowers was not subject to its domestic supervisory oversight and regulations, such as capital requirements.[12] This accounting gimmick heralded the birth of the Eurodollar markets, which made lending US dollars more profitable in the offshore City of London than on Wall Street, leading to US banks and others setting up shop in London. In creating an unregulated 'stateless' space for cross-border capital markets, the Bank of England aimed to revive the sterling area following the decline of the British empire. This soon led its remaining crown dependencies and overseas territories to gradually transform themselves into tax havens, with the City at the centre of an emerging global offshore grid.[13] In parallel, decolonisation saw leading capitalist states create a global patchwork of bilateral investment treaties, further securing cross-border investments and investor rights, chiefly to the benefit of MNCs headquartered in rich countries holding assets across their former colonies.[14]

The stunning growth of the Eurodollar markets eventually undermined the post-war order, which collapsed during the early 1970s. Fixed exchange rates made way for floating rates, introducing novel financial risks for corporations, governments and households, accelerating the spectacular rise in financial derivatives trading in Chicago, London and New York. Bourgeoning capital mobility led to the creation of *transnational* marketplaces, increasingly built via offshore entities and structures posing difficulties for national regulators. The ascent of neoliberalism in the 1980s streamlined the rise of globalising finance: besides deepening bilateral fixes, capital mobility became increasingly anchored in *multilateral* trade agreements and organisations, encouraging ever more states to deploy unilateral strategies to attract hypermobile capital. As a result, capital flowing into and out of offshore jurisdictions mushroomed over the 1990s, and truly exploded during the 2000s. Figure 1 shows the gross inward and outward capital flows via Dutch shell companies. The Netherlands is currently the world's largest recipient of foreign direct investment (FDI), operating as the world's major intermediary offshore destination for global capital. The value of gross transactions grew from €782 billion in 1996 to €2.2 trillion 2002, rising to a whopping €7.4 trillion in 2017. These spectacular growth rates suggest that offshore finance is no longer an exotic sideshow alongside regular and regulated finance, but has become the new normal.

Figure 1

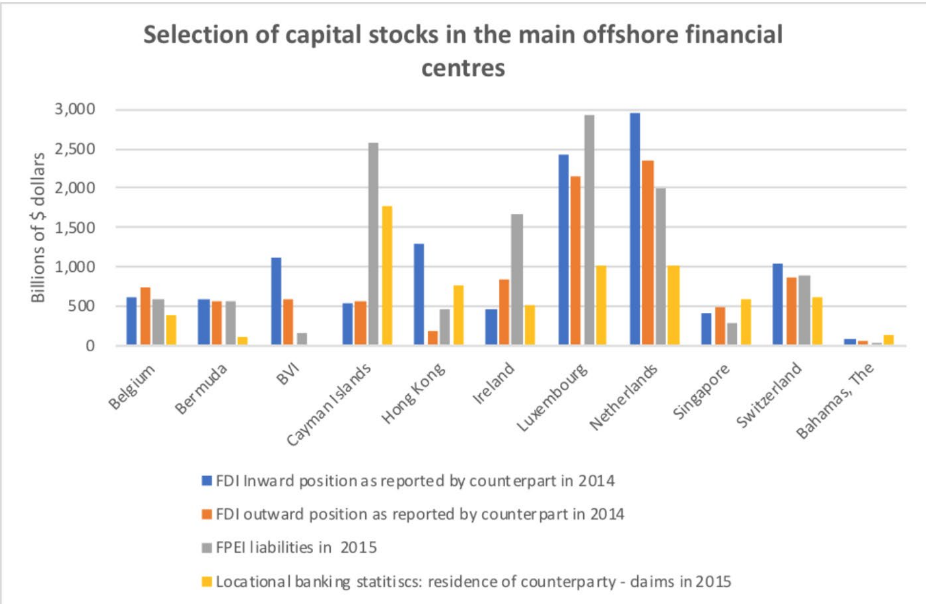


Source: Dutch Central Bank

A New Dawn

In an OFC ranking that will be published in 2019,[15] we identify a core group of OFCs that structurally captures the largest share of offshore capital stocks and flows worldwide. As the central offshore grid underlying the world's leading financial centres – London and New York – we rank these OFCs according to their use by investment funds, MNCs and banks. In rank order, our core group consists of *the Cayman Islands, Luxembourg, Bermuda, Hong Kong, the Netherlands, Ireland, the Bahamas, Singapore, Belgium, the British Virgin Islands and Switzerland*. This outcome is not surprising, as it confirms what different studies by academics, policymakers and civil society organisations (CSOs) have shown. Table 1 shows the size of the different stocks of capital accumulated in these offshore centres. The figures on inward and outward FDI, foreign portfolio investments (FPI) and banking statistics show different channels and logics orchestrating offshore financial flows: where the Cayman Islands and Luxembourg are prime destinations for the financial flows of investment funds and banks, Luxembourg and the Netherlands are key gateways for MNCs.

Table 1



Sources: IMF (FDI and FPEI data) and BIS (banking statistics)

Together, this group comprises the world's major conduit and sink destinations, offering secrecy, tax-minimisation, incorporation mechanisms, and a range of specialised services. For instance, Ireland is dedicated to corporate head offices whereas the Netherlands facilitates holding companies. These differences are often in symphony, resulting in popular tax-planning structures such as 'the Double Irish with a Dutch sandwich'. The group is spread across the world's major markets and time zones: where Hong Kong is the offshore gateway into and out of China, Ireland and the Netherlands typically serve the global operations of US multinationals. What further stands out is the geographical prominence of Europe, specifically the (former) territories of the British Empire, followed by a central role for the Low Countries – Belgium, Luxembourg and the Netherlands. Overall, corporate value chains are habitually structured along this group,[16] which together with the wealth of the world's billionaire class effectively constitutes the backbone of global capitalism.

Although governments and legislators initiate and enact offshore legislation for individual OFCs, the *integrated offshore world* is effectively cultivated by a handful of globally-operating banks, law and accountancy firms – curiously, three professions all licensed by the state (or central bank) to perform specific public functions. The recent streak of offshore data leaks provides fascinating insights into their activities: *Swiss Leaks* uncovered a massive tax-evasion scheme run by the Swiss subsidiary of the global bank HSBC,[17] and the *Panama Papers* unveiled the tricks of global law firm Mossack Fonseca in Panama, manufacturing the shell companies through which HSBC clients evaded tax.[18] *Lux Leaks*, in turn, exposed corporate tax-avoidance schemes enabled by the Luxembourg authorities and accountancy giant PricewaterhouseCoopers. Through the dedicated assemblage of *hybrid* loans and entities certified by government tax rulings – corporate funding structures that are fiscally or legally treated differently across jurisdictions, capitalising on mismatches in tax codes – corporations enjoyed 'effective tax rates of less than 1 percent on the profits they've shuffled into Luxembourg'.[19]

The *Paradise Papers*,[20] centred on the Bahamas office of offshore law firm Appleby, reveal that the core operating system of offshore finance is a highly exclusive world, anchored in a dozen OFCs cultivated by a handful of professional intermediaries, structuring the 'activities' of their corporate clients across OFCs to maximise wealth protection and returns. Together with the global billionaire class, who are the ultimate beneficial owners of this corporate edifice, *'these players have become, as it were, citizens of a brave new virtual country'*.[21] Again, their composition is truly global: from European royals to American *nouveaux riches*; from Chinese princelings and Arab princes to Russian oligarchs and African warlords – the global elite has effectively carved out a secretive, tax-free and *sovereign* homeland for itself.

Sovereign Capital

> Over, under and beside the state-political borders of what appeared to be a purely political international law between states spread a free, i.e. non-state sphere of economy permeating everything: a global economy.[22]

Although offshore finance has only recently matured and professionalised, the mechanisms underlying its global rise to prominence remain the same as a century ago. The offshore world evolved on the back of the international state system, where the sovereign is regarded the highest legal authority. That is to say, under the guise of public international law states are free to open up their domestic economies to foreign capital via bilateral and multilateral means. Capitalist states have used this freedom to facilitate capital mobility, which is the key prerequisite for offshore finance to flourish, for it makes little sense to unilaterally attract foreign capital in a world of strict capital controls. Friedrich Hayek compared the vital capitalist right of capital mobility to 'the xenos, or guest friend, in early Greek history'.

> The category of xenos rights helps us think about individuals having protected rights to sage passage and unmolested ownership of their property and capital, regardless of the territory. It is a right that inheres to the unitary economic space of dominium rather than the fragmented state space of imperium – *yet it requires the political institutions of imperium to ensure it*.[23]

It is here that we stumble upon the realisation that ideological splits between political and economic domains make little sense, as offshore finance is woven from the sovereign fabric of states, anchoring the capitalist world of property (*dominium*) through the rampant commercialisation of state sovereignty (*imperium*). Consequently, no single state can meaningfully control contemporary offshore finance, since the introduction of regulation in one place will result in capital moving elsewhere. Interestingly, there are clear historical precedents for the present geography of financial power. Looking at the birth of modern capitalism, for example, Arrighi argued that 'the Genoese merchant elite *occupied* places, but was not *defined* by the places it occupied', constituting a 'non-territorial' infrastructure similar to the offshore 'Eurodollar market'. In other words, modern capitalism simultaneously developed in the *space-of-places* where it became tied to particular states, and the *space-of-flows* encompassing networks above the control of any state.[24] Where the Dutch Republic and Britain effectively operated *company states*,[25] representing a relative unity between state and capital embodied in their quasi-sovereign East India companies, since hegemonic power shifted to the United States, privatized corporate power has relentlessly globalised and intensified, with the sovereignty undergirding globalising corporations increasingly scattering across the world. In the words of Arrighi, pointing to the decomposition of territorial sovereignty, the 'explosive growth of transnational corporations … may well have initiated the withering away of the modern inter-state system as the primary locus of world power'.[26]

To grasp how capital rules the world, we need to systematically distinguish between formal and effective sovereignty,[27] and realise that corporate power is always derived from state power.[28] The sovereignty underpinning offshore finance might be compared to Berle and Means' classic account of the modern corporation,[29] emphasising the separation between corporate ownership and control. In a similar fashion, sovereignty ownership and control seem to have diverged: where the former remains the realm of *imperium* proper, chiefly the *national* state, *global* sovereignty control has progressively shifted towards major corporations and their professional gatekeepers maintaining the offshore space of *dominium*, of property. Although OFCs legally place non-resident financial activities *outside territorial boundaries*, indeed offshore, this remains *within the confines of their sovereign authority*: although lawmakers are territorially bound, the sovereignty for sale is of an *extraterritorial* nature.[30] Crucially, used as a single package by global corporations and elites, the many slivers of commercialised sovereignty available across the world combine, fuse and ultimately mutate into 'a new global form of sovereignty'[31] – a *deterrritorialised* sovereignty jointly underpinning the planetary rule of capital.

Prospect

At the turn of the millennium, offshore finance became the engine room of global capitalism. Its spectacular growth is now tied up with wider financial and technological change, such as rampant corporate financialisation, seeing corporations assume ever more financial traits, driving the rise of non-regulated, non-bank, market-based finance, which is chiefly orchestrated offshore. Likewise, banks and financial institutions have collectively entered this shadowy financial world, which is legally viewed as distinct from regulated banking and finance, yet the 2008 financial crisis revealed that these two worlds are intimately connected, and effectively comprise a whole in which the offshore component dominates. Indeed, overall it is safe to say that 'global finance' *is* offshore finance.

These changes have unfolded in a wider process of incessant neoliberalisation, having accelerated global income and wealth inequality, as the rich and powerful can now simply choose whether or not to pay taxes, which often is perfectly legal. It is this very development which undermines the social fabric of society, effectively bisecting it, as elites increasingly evade their public duties, having legally detached themselves and their properties from their respective countries of origin, as if they lived elsewhere, or nowhere at all. It is these developments which have driven popular resentment throughout the world, with a rising number of nationalists vowing to 'drain the swamp'.

Unfortunately, given that the offshore *dominium* undergirding global capitalism is primarily built through the national politics of *imperium,* the idea that nationalists will 'take back control' from the globalists is debatable. Offshore finance is built out of the *unilateral* commercialisation of what mostly constitutes national sovereignty in order to attract capital principally mobilised via a global web of *bilateral* tax, trade and investment treaties. In other words, present-day global capitalism, captained by trillion-dollar corporations and the billionaire class, does not necessitate a multilateral order– far from it, as it thrives on sovereign borders and related legal mechanisms of exclusion. Summarising recent developments, Slobodian argues that 'the formula of right-wing alter-globalization is: yes to free finance and free trade. No to free migration, democracy, multilateralism and human equality'.[32] Indeed, global capitalism adores national sovereignty, and merely despises its popular democratic foundations and applicability, which decades of neoliberalism have systematically corroded.

The present rise of illiberal forces, therefore, might not prove a rupture to the established order, but rather anchor its global dominance, as 'political illiberalization might equally shield the economic core of the neoliberal project from popular resistance, effectively functioning as its toxic protective coating'[33] – not least to safeguard the offshore world of property. A quick look into the data leaks mentioned earlier reveals that most authoritarian 'strongmen' themselves have secured their assets and incomes offshore, along with a sizeable faction of the global billionaire class who sponsor them.[34] Cynically, the same is true for the global media barons having supplemented their neoliberal narratives with nativist venom, selling the virtues of patriotism while themselves living as true 'citizens of nowhere', owning multiple passports to minimise the taxes on their vast business interests structured offshore.[35] The rise of Bolsonaro or Trump, the advent of Brexit – on closer inspection these and other political developments driven by 'dark money' suggest an offshore billionaire's rebellion rather than a people's anti-establishment revolt. Meanwhile, even the chairman of the high church of neoliberalism – the World Economic Forum (WEF) – is semantically distancing himself from 'globalism' to better accommodate 'national interests' under globalization, notwithstanding the fact that global capitalism built by and for the offshore billionaire class annually congregating in Davos simply rages on like before.[36]

Looking at what has euphemistically been labelled *Alt-right*[37], moreover, we find a vulgar celebration of unrestrained corporate power behind a façade of 'refreshing' memes and cultural narratives, revealing a remarkable continuation of neoliberalism in general and a radically deepening of corporate sovereignty in particular. For their ideal capitalist state fully rejects the premises of liberal democracy, seeing presidents replaced by CEOs running their states as corporations, maximising shareholder value for their ultimate beneficial owners: the global billionaire class. Under what thinkers like Nick Land and Curtis Yarvin label *GovCorp,* politics is deemed illegal and citizens are stripped of their rights – the only human right will be 'exit' for those who can afford it, meaning capital flight, upholding the cast-iron right of capital mobility. In what can only turn into an endless race to the bottom, future *GovCorp* states will forever compete for hyper-mobile offshore capital. Notwithstanding populist appeals of popular democracy, the aim of these self-proclaimed challengers to the global order is to reach neoliberalism's final frontier: the full corporate takeover of sovereign governments and states themselves.

Although this prospect has yet to materialise, contemporary capitalism is increasingly turning into a global platform economy, with offshore finance as its central operating system and the rest of the world plugged into its dominant operating logic on various terms. Where ordinary citizens and businesses are subject to global capitalist rule via their respective states – enforcing austerity, taxes and, increasingly, authoritarianism – offshore residents have grown above territorial enclosure, having effectively become a global 'stateless' oligarchy, living secretive and tax-free lives with their vast fortunes supported by expansionary monetary policy. Representing the very crown of capital's defeat of labour, the offshore world is threatening to give rise to an age of *ultra imperialism,* as an increasing number of states have effectively joined in an offshore federation, 'replacing imperialism by a holy alliance of the imperialists'.[38] In fact, the offshore world already operates as a global incorporated *Leviathan*[39], as the world's ultimate creditor state, with a handful of global banks, law and accountancy firms 'seeing like a state'.[40] In this capacity, moreover, these (para-) financial players wield classic hegemonic power elsewhere, exerting 'functions of leadership and governance over a system of sovereign states',[41] as clearly exemplified throughout the management of the financial crisis, advising clueless governments to bail out the troubled offshore portfolios of the few at the price of austerity for the many.[42]

We have reached the point, like in the *Hunger Games* trilogy, where citizens across the 'districts' of the world need to rise up and unite against the *Capitol* of our age – the offshore world – threatening to transform the international system of states into a present-day *Panem,* enforcing its global rule through local strongmen. Citizens worldwide need to reclaim democratic oversight over what constitutionally is – or should be – *popular* sovereignty. This will require exposing nationalist nostalgia, sugarcoated with xenophobia, as hyped-up distractions from the power grab by the offshore Capitol. It will need a spotlight on global corporations and elites avoiding public responsibility and scrutiny who urgently need to be relieved from the vast political power they enjoy and exert. Although the fight will prove difficult, with no quick fixes, it offers a narrow political target to mobilize a broad political base, one that can bring together the indignant and deplorable, uniting red squares, green ambitions and yellow vests. For only a truly collective struggle to dethrone offshore finance opens up possibilities to *really* take back control.

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STATE OF POWER 2019

High Finance

An Extractive Sector

Interview with Saskia Sassen

Nick Buxton interviewed the renowned sociologist Saskia Sassen towards the end of 2018. For our State of Power 2019 report, we were keen to explore two themes with her. First, how finance has changed the nature of cities today and second, how finance has fuelled new forms of expulsions and dispossession. The interview concludes with a discussion of the fractures in the power of 'high finance' and how citizens' movements might take advantage to advance democratic control.

How powerful is finance today and from where does it derive its power?

First, finance shouldn't be confused with traditional banking. We need banks – they sell money – whereas finance is a mode of extraction, just like mining: once value has been extracted they don't care what is done with it. A traditional bank wants its customers' children to be future clients, so it cares about relationships, but finance doesn't care at this personal level, except if they are very, very rich.

Second, finance is a dangerous sector because financiers have learnt how to financialise just about everything. And they do this not through traditional banking practices, but through algorithms and highly speculative manipulations. They have invented instruments to serve themselves rather than whoever they are advising. Which means they often don't lose even when their clients do.

Let's take, for example, the issue of student debt in the US. It has now risen to more than a trillion US dollars (mostly borrowed by modest-income households). A bank would not know what to do with that debt beyond charging interest. But finance can work with it – though it needs to be a fairly big debt! – often at a high human cost because while finance can gain something, for the holders of the debt (say the student's parents) all there is, is the debt.

Finance can extract value from the debt (beyond interest rates) because it has developed complex instruments that allow it to do that, to the advantage of the financial firm and the disadvantage of the borrower.

To take another example, when I interviewed truckers in the US Mid-west, who were constantly moving sheet metal around the region, they said they had no idea what they were doing. But it turns out they were moving metal because Goldman Sachs was deliberately delaying delivery to create an image of scarcity of construction metal in order to raise the price – from which it could benefit.

This case shows what I think of as the *third* dimension of finance, which is that it occupies a unique space, separate from production and consumption. It is a space that makes profits from speculating on all kinds of items – from money and investment to metals and oil.

One key to this capacity is that it uses algorithmic mathematics. The average person does not quite understand or know about these complex modes of extracting wealth.

But wouldn’t those in finance argue that these instruments help balance out risk and facilitate growth?

Certainly, finance has produced positives for many actors. It has created formidable levels of wealth. But to produce and accumulate that wealth it has used many other entities and done serious damage to them: the enormous gains of finance did not fall from the sky. They were made, and that involved hurting many other actors – households, traditional banks, firms, municipal governments, and more.

For example, California’s public-sector pension fund, CALPERS, has long been a very well managed fund that provided significant benefits to its retirees. But CALPERS fell into the trap of dubious financiers whose interest was not that of the retired workers, but their own. The result was that the new managers became rich, but the workers’ fund lost money, which affected the retirees.

This has been happening in several western countries’ pension funds. For instance, a team of Dutch researchers recently started tracking the handling of Dutch pension funds. It seems that some of the investments of workers’ pension funds could have done much better. They have already managed to reduce the percentage that goes to the financial firms handling these funds.

What is happening with pension funds managed by financial firms only begins to scratch the surface of the real abuse. This is serious stuff.

And what complicates matters is that it is not just corruption, but also the manipulating of workers’ pension funds in ways that bring excessive benefits to the funds’ managers. This is not so difficult to do given the complexity of finance and the difficulty for the average worker to understand what is happening. But the data is in: the evidence shows in several cases that those in charge of pension funds are getting far too much money for their ‘work’ of managing.

Again, in my reading, it is yet another way of showing how finance has a logic of extraction. Traditional banking is just commerce: it sells something for a price, while finance is extractive.

How significant is finance in today’s global city? And how important are cities to the power of finance?

It is an irony of the financial sector that while it is highly digitised, it also has a strong material presence and nowhere more so than in the city. You would think it wouldn’t need such vast material presence – most transactions are electronic! But they have in fact taken over significant parts of urban space in two very different ways.

One is the fancy buildings of rich financial firms. But there is now a second space, which is not often visible. I first noticed it in the financial centre of major cities like Hong Kong and New York: besides the buildings housing the financiers and their computers and meeting rooms, there are now also huge warehouses nearby to accommodate highly advanced computer operations that run continuously, day and night. These computers also perform many of the most complex algorithmic mathematics that establish what is a desirable investment and what is not.

The electronic revolution actually needs a whole range of very material elements – and this is not sufficiently discussed or recognised. If you look at fibre optic cables – a critical infrastructure for finance – they require construction, whether across the oceans or between cities and buildings.

Speed is of the essence here. For example, a key fibre optic cable connecting Chicago and Manhattan's financial centres was partly rebuilt because a minor deviation was delaying transactions by a fraction of a second. When speed is everything, fixing a little curving in a fibre optic cable that will save fractions of seconds is worth the added cost.

This gives you an insight into an extreme mode of production. There are few other situations that match it – at least on land – though perhaps there are in interstellar space operations!

And how is this shaping or reshaping cities?

It is worth looking back to the 1980s and 1990s when many major western cities were somewhat impoverished – London, New York, Chicago, Paris. The middle class was increasingly moving to the suburbs.

The media published many articles suggesting that cities were impoverished, people were leaving them due to the mix of inequality, drugs, crime and so on. But just at that moment, a new economy emerged. It was driven by financialisation, globalisation, and hence a sharp rise in the need for specialised knowledge about all the diverse economies in the world.

As firms sought to enter the global market and needed to operate in many countries, each with specific economic modes, they found they could not produce all the knowledge within the firm (legal advice, investment options etc.). This led to a huge growth of highly specialised firms that could deliver whatever a global firm needed. I gave it a name: the 'intermediate economy'.

For example, a transnational corporation today may need to buy a vast range of very specific, but partial, knowledge elements of all the diverse countries in the world – 15 hours of Mongolian accounting, 20 hours of London's legal advice, and so on.

This led to a new type of economy in major cities, which I called global cities. The key marker of these cities is that the intermediate sector comprises hundreds of highly specialised firms that could deliver all the knowledge and advice global firms need to operate globally. One effect was a massive grab of more and more space, not just for elegant offices, but also high-end housing, restaurants, shops, hotels, and yes, all those computers that never stop working!

It is this intermediate sector that has expanded in major cities and has created an extremely high-income workforce and a vast expansion of very expensive housing, offices, restaurants, shops, hotels. It transformed cities. This has led to the growth of a new type of middle class with lots of money, connected to the world, and travelling a great deal.

We see this type of high-end world not only in many western-style cities, but also in major cities in China, Tokyo, Mumbai, Bangalore, Nairobi, Buenos Aires, and so on. Much of the rest of these major cities might be poor and degraded. But this core of high-end businesses, residences, hotels etc, is a core feature in the current urban condition.

It is worth recalling that in the 1980s, with the rise of digitisation, many experts predicted that cities would matter less and less – well, no!

Moreover, this enrichment of major cities has also displaced the more traditional trades – modest middle class (accountants, teachers, doctors) who can no longer afford to live in the central areas of major cities, and it has displaced the nurses, teachers, firefighters, police officers – which means that municipal governments now have to pay extra money to such essential workers.

Beyond this, there is also the world of high finance that shapes our cities, as it financialises not just materials but also buildings. Using their algorithms, a building, a floor, even a toilet can be turned into asset-backed securities, an invisible process to the average urban resident. Even some of the city's empty buildings may be delivering profits if it functions as an asset-backed security.

In the subprime mortgage crisis, we saw this mode as the curve turned negative. But even though many families went bankrupt along with some firms that stayed in the game and hence were hit by the crash, others did not delay extracting the wealth and moved on.

Many European and US-based financial firms made a lot of money from such asset-backed securities, and with the Fed's support pumping in massive amounts of quantative easing (QE) were prevented from bankruptcy and survived and thrived.

Cities were affected by this too. In Italy a whole group of cities all went bankrupt at the same time in mid 2018: it turns out they had all been sold a particular derivative, not a loan. The amazing thing is how long it has taken for people to wake up to the way that cities have become financialised and involved in bad loans. The first of these cases became famous: Orange County, California, 20 years ago, but we did not learn from it.

Where are the possible fractures or weaknesses in financial power?

Finance is like a mine: it extracts and eventually there is nothing left to extract. That is why I say it functions as a curve. There are limits to how much the financial sector can extract. But by the time public authorities become aware of the costs, the sector has already extracted a lot and is able to move on.

At the moment, the question is what will be the next big area of extraction? What is left to financialise? Asset-backed securities are still popular, as is speculation on housing. China is another huge arena to financialise but it's not clear how that will play out. Further, there is a bit of stasis in the system, and a sense that not everything is going that well. I am not yet willing to put my finger on what will come next.

In terms of cities, too, there are fractures. A city is an open but complex system with extraordinary economic, social, religious and cultural mixes. It is a kind of frontier system where actors from different worlds can have an encounter for which there are no fixed rules of engagement. In many major cities, growing numbers of the modest middle classes, for example, are increasingly pushed to the periphery. But people have also always used cities to mobilise and build counter-powers – the 'yellow jacket' struggles across France, for instance. I think it is a moment of instability – and this is a time when instability is welcome – given the extreme powers I have described above!

How might citizens regain democratic control over finance?

To tackle financial power strategically, it is good to remember it has a material component. It is not totally abstract. For instance, we know there are empty buildings owned by banks or corporations, and at the same time we have a major housing crisis and exorbitant housing prices. Thus, the built environment in our cities gives us a platform for making demands, for complaining – an opportunity to speak out.

The media and politicians have ignored the deep transformations of finance, let alone the scandal in the US of the vast amount of money that went to banks through quantitative easing while 14.5 million households lost their homes. The US Congress has been out to lunch on this issue. They invite financiers in to explain what they are doing, who then explain in ways that politicians don't understand but pretend to follow in order not to appear stupid, and then just accept what the financiers tell them.

Our economies have become so complex that we citizens need to make sure that among our politicians there are always experts on the diverse major subjects – from the environment to finance – that need to be addressed. At every political level – municipal, provincial, state, international – we need a few people committed to be or to become knowledgeable on some of the complex issues in our current democracies, including finance and the environment. We need experts who can keep up with extraordinary innovations – not just finance but also medical, biological – who can advise and are not paid by the same companies profiting from it, as is common in the US.

We can learn from experiences such as the Dutch who saw the problems with pension fund abuses, did their homework and recovered half their losses.

What is clear is that our model is not working – globalisation, deregulation, and financialisation trends enacted in 1980s that are now playing out in North and South. It is encapsulated for example in the story of Flint in Michigan, that today is still poisoning its children from polluted water – years after this became public knowledge.

We citizens have a lot of work to do. We delegated too much, we have assumed experts can do it and have ended up in an abusive relationship. We need to develop our own expertise.

ABOUT THE INTERVIEWEE

Saskia Sassen is the Robert S. Lynd Professor of Sociology at Columbia University. Her latest book is *Expulsions: Complexity and Brutality in the Global Economy*. Cambridge, MA: Harvard University Press (2014); now translated into 15 languages.

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STATE OF POWER 2019

Banking on public power

Lessons of the Institute of International Finance

Jasper Blom

September 2011, three years after the collapse of Lehman Brothers, public anger with the Great Financial Crisis boiled over right where it all started: Wall Street. The austerity measures taken in response to the crisis and the failure to hold bankers to account led a large group of activists to 'occupy Wall Street'. Inspired by the Arab Spring, the idea was to keep public space occupied until there was a change benefiting 'the 99%'. Within weeks, hundreds of protests and 'occupy' camps had sprung up in major financial centres around the world. Not since the heydays of the East Asian financial crisis had global finance come under such sustained criticism from civil society organisations (CSOs) and never – in my lifetime – had this led to such mass mobilisation demanding radical reform of the global financial system.

At about the same time, the Institute of International Finance (IIF) published the report 'The Cumulative Impact on the Global Economy of Changes in the Financial Regulatory Framework'.[1] Its message was simple: stricter regulation for banks would smother growth and lead to the potential loss of millions of jobs. That a banking lobby group protested stricter regulation should come as no surprise. What was surprising was the significant media coverage of the findings in the business newspapers. While the methodology of the report was obviously one-sided and streets were filled with occupy encampments, bankers' demands still resonated among financial policymaking elites.

Since those turbulent days, it is clear who carried the day. The solemn promise of world leaders at the first G20 Summit in Washington in November 2008 to 'lay the foundation for reform to help to ensure that a global crisis, such as this one, does not happen again'[2] seems all but forgotten. Political economist and long-time observer of global finance Eric Helleiner aptly captured it in the title of his 2014 assessment of reform after the crisis: 'The Status Quo Crisis'. And although there have been many regulatory reforms since then, the crisis has not turned out to be a new 'Bretton Woods moment' in which the global community decided on a fundamentally different global financial order. Capital requirements for banks have risen somewhat, dark corners of the financial system have come under the supervisory spotlight, and some international organisations have been strengthened. But the fundamental idea of a market-led global financial system has not been seriously questioned.

In this essay, I will argue that the incremental nature of reform has much to do with the sway over public policymaking of the international financial sector. It will focus on the IIF because this is arguably the most powerful financial lobby group and the most closely involved in the type of global financial crises we have just experienced. I will make two main points. First, to understand the power of the IIF we have to look not only at the expertise and structural power of its bank members, but also at the 'demand side' of public policymakers. Too often, the influence of the financial sector is perceived as a one-way street from Lobbyville influencing government policies, but my analysis shows there is a continuous two-way exchange between IIF and public policymakers, who helped shape the Institute at every step of the way. Second, in putting the IIF in this position (as opposed to other financial lobby groups or – if only! – other stakeholders) public policymakers made a deliberate choice for globally integrated and market-led financial governance over a more domestically oriented, fragmented, and plainly smaller, financial system.

These two points indicate that if you want real change, simply trying to stop the financial lobby might not be as straightforward as it sounds. There is not only a supply side of the private-sector lobby but also a demand side of policymakers who choose the IIF as their key interlocutor. Policymakers should be provided with alternative discussion partners, through building a coalition of think tanks and financial institutions that can provide expert advice on par with what the IIF would have to offer. To put it in Gramscian terms: a counter-hegemonic structure needs to be developed and nurtured to replace the currently dominant financial lobby focusing on global integration under market-based regulation.

Financial lobbying power

As a highly regulated sector with a crucial role in the functioning of the economy, the financial sector has always been closely related to public policymaking. In his prize-winning analysis of the emergence of the eurodollar market in the 1960s, Gary Burn demonstrates that the institutional structures facilitating the City of London as a global financial centre had already been established in the late nineteenth century and were such a close intermingling of state, banks and private sector associations that it is not even meaningful to talk about separate state and market spheres.[3] A raft of case studies of the financial regulatory processes in both developing and developed countries has underscored these close ties of domestic financial interest associations and public policymakers.[4]

With the re-emergence of global finance, likewise international associational activity moved to the global level. One of the earliest was the Association of International Bond Dealers (now the International Capital Market Association) which was established in 1969 to organise the eurobond markets. This was followed by the IIF and the International Swaps and Derivatives Association (ISDA) in the early 1980s, while the International Banking Federation was established as recently as 2004. Heather McKeen-Edwards and Tony Porter have compiled a database of over 200 of these 'transnational financial associations'.[5] They argue that four of these serve as the apex organisations: the IIF, the Global Financial Markets Association, the ISDA, and the International Accounting Standards Board. Each of these associations comes from a different segment of the global financial system, respectively banking, capital markets, derivatives, and accounting.

The IIF was formally established in January 1983 and established its office in Washington to be close to the IMF and World Bank. The IIF's membership was limited to banks with (prospective) international lending and 38 banks from Belgium, Brazil, Canada, France, Germany, Italy, Japan, Switzerland, the UK and the US became founding members. Membership grew to almost 190 banks in its first year and from the mid-1990s onwards it rose further as a result of an active membership drive by the IIF's management (e.g. expanding in Asia after the East Asian financial crisis). According to its website, it currently extends to nearly 450 institutions from over 70 countries. Currently, full membership is limited to firms internationally active in banking, securities and insurance, but associate membership and special affiliates are open to another layer of institutions active in the global financial system, such as accountancy firms, development banks, export insurers, and stock exchanges.

The budget of the Institute has kept track with its growing membership. It started out at about USD 10 million in current values, and has increased almost fourfold since. The number of staff has expanded from about 40 to about 80. The Institute thus has significant resources to lobby for its positions. Senior management of the IIF is geographically spread among the membership – for instance, if the Managing Director is from the US, the Chairman of the Board is European or Asian. The Membership Meetings are scheduled to coincide with the Spring and Annual Meetings of the IMF and the World Bank, reflecting the desire for exchange with these institutions.[6] The current President of the Institute is Timothy Adams, a former Under Secretary for International Affairs of the US Treasury. His famous and long-serving predecessor, Charles Dallara, had a similar background in US policymaking circles.

The Institute's current mission is 'to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth'. To achieve this mission, work is organised around three pillars: country economic analysis, regulatory issues, and international financial policies towards emerging markets. In addition, the Institute increasingly provides training and education for banking professionals and public officials through seminars and conferences. Through all these activities, the Institute interacts often and closely with public officials at the national and global level. But to really understand its power in influencing global financial policy, we have to dig deeper into its curious origins.

The 1980s debt crisis: genesis of the IIF

The IIF emerged as the consequence of the growth of private financing of emerging market sovereign debt, and more specifically as a consequence of the 1980s debt crisis. The idea of establishing a forum in which to exchange (sometimes confidential) information on the exposure of banks to and the economic developments in developing countries was conceived of in May 1982 at a high-level meeting of public and private financial policymakers sponsored by the National Planning Association (a US think tank) at Ditchley Park in Oxfordshire. The idea was to increase the transparency in the sovereign debt market, so that banks could better assess the risk of their loans to emerging markets (and the market for private financing of developing countries could grow, one might add). Specifically, Jacques de Larosière, Managing Director of the IMF, encouraged the establishment of the Institute and extensively briefed the IMF's Executive Board on the project. In addition, the IMF, BIS and OECD allowed the IIF access to their (non-public) reports. In other words, from its origin the IIF was not simply a reflection of the interest of private Wall Street banks, but equally a reflection of the demand by public international organisations for an interlocutor.

In the meantime, bank lending to developing countries (rebranded by bankers as 'emerging markets') ran into trouble. In the summer of 1982 Mexico declared it could no longer fulfil its debt obligations, followed by many others in Latin America and other parts of the globe. The 1980s debt crisis was born, potentially wreaking havoc on the international banking sector: in the US, banks' exposure to the 17 most highly indebted emerging markets was well over a 100 per cent of capital, while for the UK banks a complete default of these countries would wipe out 85 per cent of their capital.[7]

Negotiations between the banks and the bankrupt developing countries took place in so-called London Clubs. These were informal gatherings where the banks could hash out debt restructurings on a case-by-case basis. This offered the bankers the benefit of being able to learn from experience, tailor proposals to regain as much of the distressed debt as possible, and prevent the emergence of a united front of debtor countries. The newly established Institute was less suitable for these case-by-case negotiations. Its Board emphasised that it did not intend to present a united front of bankers to borrowing countries when it came to debt restructurings (out of concern for US anti-trust law, it seems).[8]

In relation to global-level policy reforms in the wake of the debt crisis, the Institute did see itself playing a role. It established a working group dealing with the policy issues related to the resolution of the 1980s debt crisis (e.g. what menu of options debtor countries should offer and the preference for voluntary case-by-case approaches) and coordinated the involvement of smaller banks. Already from early 1985, it started sending a bi-annual letter to the members of the IMF's main governing body (the IMFC) to lobby for the IIF's positions regarding the agenda of the day.

By the time of the Brady Plan (1989), the IIF had emerged as the main voice of the international banking community. It opposed the somewhat non-voluntary debt reductions that Brady proposed and on the eve of the 1990 Spring meetings of IMF and World Bank it published a report on emerging market financing that emphasised that the Brady Plan was leading to increasing arrears in emerging markets and potentially eroded discipline in the international financial system. The IIF advocated for increasing official (public) funding for the restructurings, a truly voluntary debt reduction and no IMF tolerance of interest arrears of debtor countries to commercial banks.[9] In other words, the IIF acted as a true interest association by trying to offload the burden of the crisis onto the debtor countries and the official sector while keeping its market intact. Its power was not (yet) sufficient to stop the Brady Plan, however.

The origins of the IIF were thus closely tied to international organisations and public officials encouraging its establishment and providing it with the means (e.g. access to confidential data) to attract members. Combined with the urgency of the 1980s debt crisis, this kickstarted the organisation (as the membership figures discussed above testify). Once established, the Institute fairly quickly started to develop an advocacy role. Its lobbying activities really came into their own when international banking regulation was discussed, as the next case will demonstrate.

Global banking regulation: levelling the playing field

In the wake of the Latin American debt crisis, US banking regulators had successfully pushed for a global agreement on bank capital adequacy standards to prevent defaults from potentially wiping out the banking sector again. With the 1980s debt crisis resolved, discussions emerged on the renegotiation of these regulations. The IIF was quick to realise the opportunities this policymaking process offered and reorganised itself to be able to optimally influence the negotiations. It allowed an increasing number of non-bank corporations (e.g. investment management and insurance companies) to join the IIF as financial markets integrated across borders and across banking and capital market sectors. This provided the IIF with a unique perspective and expertise on the inner workings of international finance. Lobbying on international regulatory issues became a third pillar of its work (as mentioned above) and was organised in such a way as to mirror the structure of the global public policymaking forum, the Basel Committee on Banking Supervision.[10] Due to its specific expertise as a representative of the most 'sophisticated' internationally active banks, the Basel Committee actively asked the IIF to organise private-sector input.

In its lobbying work, the IIF favoured international regulation and standardisation to 'level the playing field' and make conducting banking business all over the globe more convenient. At the same time, the IIF favoured the lightest possible regulatory burden, aiming for 'market-based' regulation. The renegotiations of the Basel Capital Accord, the international agreement dealing with the capital buffers banks need to hold to prevent banking crises, provide a good example of these dual goals.

The main demand from the private sector, and the IIF specifically, was the use of banks' own models to calculate risks and thus the amount of capital they should hold to cover those risks. This so-called Internal Ratings Based approach would allow the banks to determine the risk-weighted assets on the balance sheet and thereby determine how much capital they would have to hold to cover those risks. This would be a major change vis-à-vis the first Basel Capital Accord, which divided bank assets into several categories with risk weights set by the supervisor. The IIF set the agenda with an influential 1998 report from its working group on capital adequacy. The title aptly summarises the main point: 'Recommendations for revising the regulatory capital rules for credit risk – a proposal to allow banks to use their own models'.

It should be emphasised that using internal models is most attractive for large, diversified banks (in other words: the IIF's membership). They can gain a competitive advantage by setting their own capital levels, while for smaller banks the investment in risk-management models would be too high and specialised banks would not benefit from diversification. There was much concern among other banking associations (e.g. the World Council of Credit Unions) but they did not have the IIF's privileged access to the Basel Committee. In other words, the IIF was able to push its specific model of banking over alternative models for the global financial system.

By setting the agenda with its expertise in credit risk modelling, the IIF was very effective in influencing the Basel II Capital Accord. Although the Basel Committee did not give the banks free rein to determine their own capital level, it did allow the use of internal models for the 'most sophisticated' banks, thereby handing control of capital adequacy levels to the largest banks themselves. The IIF thus not only succeeded in 'levelling the playing field' but also making an important step towards more market-based forms of banking regulation. As an association, it responded to regulatory developments and built on its existing connections with public policymakers to become the prime interlocutor for the public sector. Just as when it was established, this was as much a consequence of demand from the Basel Committee for a counterpart with a compatible outlook on global financial regulation as of the preferences of its membership. As the next case will demonstrate, the IIF was able to gain a similar central position in public policymaking processes in the field of sovereign debt.

Capital market crises in emerging markets: consolidating pole position

The issue of sovereign debt crisis did not disappear for long from the international agenda after the Brady Plan. In December 1994 Mexico was again hit by financial crisis. A large injection of US and IMF official funding was necessary to keep the Mexican government afloat. But this just foreshadowed what was to come: in 1997/1998 the global financial system seemed on the verge of a meltdown as one East Asian country after the other was infected by 'contagion' through the global financial markets. The sheer volumes of official funding which were needed for bailouts of these countries led to a heated debate on how to resolve such crises and prevent the public sector from having to fork out huge sums of money again. The public sector seemed ready to take back control over the global markets when the IMF First Deputy Managing Director Anne Krueger proposed a sort of sovereign bankruptcy court where crisis-stricken countries could restructure their private debts (the so-called Sovereign Debt Restructuring Mechanism, SDRM) in November 2001.[11]

The idea of more public control over the market was anathema to the IIF. A common thread in all its advocacy and work on emerging market finance was a combination of increasing transparency on the part of debtor countries, a case-by-case approach to crises, limited public involvement, and opposition to non-voluntary private-sector involvement in resolving crises. Anne Krueger's proposals thus met with virulent resistance from the IIF. In a private meeting with public policymakers, Charles Dallara (Managing Director of the IIF and a veteran debt-crisis negotiator) described the SDRM as 'a complete abrogation of creditor's rights' and 'an obstacle to globalisation as evidenced by the support of anti-globalisation NGOs like the Jubilee Debt Campaign'.[12]

The IIF joined forces with other industry associations in what became informally known as the 'Gang of Six' (Bond Market Association, Emerging Market Creditors Association, Emerging Markets Traders Association, International Primary Markets Association, IIF, and the Securities Industry Association). When the SDRM was coming to a make-or-break decision at the 2003 Spring Meetings, the Gang of Six threatened to withdraw its support for any policy measures with respect to sovereign debt crises if discussions on the SDRM continued.[13] The traditional IIF policy brief in advance of the crucial Spring Meetings was accompanied by high-level visits of bank representatives involved in the IIF to domestic public policymakers (e.g. ABN AMRO and ING visited the Dutch Ministry of Finance to lobby against the SDRM). There, the power resulting from the breadth of the Institutes membership came to the fore – as members of many of the other associations had less political clout at the domestic level. The fierce opposition and coalition-building of the IIF paid off: the SDRM proposal was shelved by the IMF governors.

After these confrontational discussions, Jean-Claude Trichet (Governor of the Banque de France) launched proposals for a Code of Good Conduct governing creditors and debtor states' behaviour.[14] This proposal aimed to get public and private actors 'in a constructive dialogue again'. The Code of Good Conduct sought to lead to orderly solutions to sovereign debt crisis through early engagement with creditors, fair information sharing, fair representation of creditors, comparable treatment among creditors, fair burden sharing, negotiating in good faith, preservation of the debtor's financial situation and restoring debt sustainability as soon as possible. This was much closer to the IIF's long-held positions with respect to sovereign debt crises. It is noteworthy, however, that the Code left the control over the process up to the country in crisis in negotiations with its private creditors. There was no more taking back control over private financial markets.

Development of the Code was relegated by the G20 to a working group led by the Banque de France and the IIF. The working group included some important debtor countries and the International Primary Markets Association (IPMA). The public sector had thus put the IIF in the driving seat again, even more so as the Banque de France subsequently left the development of the Code solely to the associations and debtor countries. In November 2004, the IIF and IPMA agreed with Brazil, Mexico, South Korea and Turkey on so-called 'Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets'. The emphasis in the 'Principles' had shifted from debt restructuring to more debtor transparency and dialogue with creditors, resembling the market-based regulations preferred by the IIF.[15]

Implementation of the Principles took off under the leadership of the IIF in late 2005 when the Principles Consultative Group (PCG) and a Group of Trustees of the Principles were established.[16] Membership of these groups reads like a 'who's who' of high-power international financial policymakers. The group is currently chaired by Axel Weber (Chairman of UBS AG, former Bundesbank President); François Villeroy de Galhau (Governor Banque de France); and Zhou Xiaochuan (Governor People's Bank of China). The secretariat of the Group of Trustees is held by the IIF, cementing its central position on global financial governance.

In sum, one could almost say that the IIF has come full circle by acting as 'a forum in which borrowing countries, on a voluntary basis, could meet regularly with private banking institutions to review economic plans and financial projections'.[17] The IIF has been able to stop proposals that might harm private creditors and increase public control over global financial markets. Furthermore, it has become even more central in the governance of sovereign debt crises by the public sectors' decision to relegate the development and implementation of the Principles to the Institute. As the next case will show, this substantially strengthened the position of the IIF in the Great Financial Crisis.

The Great Financial Crisis: reaping the rewards of market-based governance

The 2008 Great Financial Crisis proved quite a test for the market-based, integrated global financial order the IIF had been so instrumental in nurturing. The internal risk-management models for which it had lobbied in Basel broke down. The debtor countries in need of restructuring were suddenly no longer the ones the Principles targeted originally but lay in the periphery of the Eurozone. And many of its members found themselves appealing to the state for support. Yet, the IIF seemed unfazed, as the opening anecdote of the 2011 'Cumulative Impact of Regulation' report had demonstrated. It did, however, broaden its lobbying in light of this new politicisation from emphasising the superiority of market-based risk management and financial regulation to stressing the economic costs of more stringent, public-based regulation.

The ink on the Basel II Capital Accord wasn't even dry when the crisis led to a renegotiation. The Accord had led to the underestimation of risks in the banking sector and overestimated the ability of banks to mitigate risks, as the influential de Larosière Report on the way forward for the European Union (EU) after the crisis stated. The public sector's initial proposals thus focused on higher level of capital and lower leverage in the banking sector, much to the dismay of the IIF. Bank capital adequacy regulation was suddenly a topic in the political sphere, making it much harder for the IIF to leverage its close contacts with policymakers behind closed doors. This is one reason why the IIF focused its line of defence on the negative consequences for general economic growth rather than on the superiority of market-based mechanisms for managing financial risks.

However, as the immediate crisis in the banking sector subsided and political attention shifted to austerity, the traditional mode of banking policymaking kicked in again. The IIF focused on watering down and delaying the proposals, arguing among other issues that stringent regulation of the banking sector would give an undue competitive advantage to the shadow banking sector. The Basel Committee did not seek to regain public control by challenging the Internal Ratings Based approach, in line with IIF's position from the start of the crisis: the market-based governance framework is good, just some tinkering is needed to strengthen risk management. In other words, the IIF proved very effective at maintaining the broad market-based approach of the Basel Capital Accord.

In relation to the sovereign debt crisis, attention focused on the derogatory term 'PIGS' (Portugal, Ireland, Greece and Spain). Among these troubled countries in the periphery of the Eurozone, Greece stood out as needing a debt restructuring in addition to its bailout. Although the Greek sovereign debt crisis mainly involved European banks and despite the fact that much of the debt was emitted under local law and not in the global financial centres, the IIF was asked to coordinate the private-sector side of the debt-restructuring negotiations. As vividly described by Manolis Kalaitzake, the Institute's experience and technical expertise in sovereign debt restructurings enabled it to play a crucial role in the design of the eventual restructuring.[18] Equally important, however, were the close ties to public policymakers through the Group of Trustees of the Principles. Although the eventual outcome of the negotiations saw a drastic haircut for the private sector, this was the best outcome for the European banks (which had enough troubles already). It also enabled the IIF to forestall any emerging discussion on public mechanisms for debt restructuring: its market-led order had worked – although ordinary Greeks will no doubt disagree. Moreover, the IIF has now established a new joint committee of bankers and senior public officials to explore new approaches to the prevention and resolution of sovereign debt crises, seemingly even taking charge of the policymaking process.[19]

Conclusion: How to contest encapsulated power

All in all, the largest financial crisis since the Great Depression seems not to have hampered the privileged position of the IIF as a representative of the banking lobby. In part, this can be explained by the fact that its emergence and subsequent development was heavily influenced by public policymaking processes, from the initial encouragement, to access to confidential public-sector data, to the modelling of the organisational structure with respect to banking regulation on the BCBS, to its inclusion in the Code of Good Conduct working group. Its uniquely influential role was thus as much driven by its expertise and economic power of its membership as by the 'demand side' of global-level policymakers.

Similarly, the specific policy positions of the IIF, aiming for levelling a playing field and market-based forms of governance, fit the general pro-globalisation and pro-financialisation outlook of the main global-level policymakers. This gives it the opportunity to overcome opposition from banking groups which strive for more locally embedded financial sectors or for limiting the integration of financial sectors.

If we want to address the power of the banking lobby in global financial governance we should thus focus on the mutual interaction between the banking lobby and public policymaking. This has important implications for social movements trying to increase the democratic legitimacy of finance by curtailing the influence of the banking lobby. More attention should be paid to the 'demand side' of public policymakers in understanding which private-sector interests are influential and which are not. Given the apparent demand for input in global financial policymaking, it might be worth building coalitions with private-sector associations that provide models of banking closer to the preferred alternatives (e.g. the cooperative banking world or the Global Alliance for Banking on Values). Pushing for the inclusion of these actors rather than exclusive dependence on the traditional representatives from the private sector (such as the IIF) might be more effective than pushing to end the relationship with the financial sector altogether.

In addition, and more importantly, public mobilisation regarding the global financial system should also provide policymakers with a wider range of discussion partners. The progressive movement should work on building a network of think tanks, politicians and financial professionals where the revolving door is just as effective as with the IIF and global financial policymakers. In the Dutch context, the establishment of the academic think tank 'Sustainable Finance Lab'[20], and the appointment of former Green politician and bank critic Kees Vendrik as chief economist of the Triodos Bank, illustrate how to strengthen the progressive networks in finance. In this way, the counter-hegemonic alternatives and power networks will be ready when the next crisis hits.

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STATE OF POWER 2019

Global Finance

Power and Instability

Walden Bello

Over the last 30 years, finance capital has become dominant in the leading capitalist economies, outstripping the industrial elite in power and influence. This development has led to the increasing subjection of the productive sector to the volatile dynamics of the financial sector.

The centrality of finance in today's global economy is revealed by the increasing frequency of major financial crises, which have inevitably been followed by recessions. Since the liberalisation of capital markets began during the Thatcher–Reagan era in the early 1980s, there have been at least 12 major financial crises, the most recent being the Global Financial Crisis of 2007-2008, which also provoked what is now known as the Great Recession from which many of the developed economies have not yet recovered. Indeed, the global economy is now said to be in the throes of 'secular stagnation' or a period of prolonged low growth, one of the key causes of which was the recent financial implosion.

The most distinctive process and feature of contemporary capitalism is said to be financialisation, which has several dimensions. It generally means that finance or the dynamics of the financial sector have become the central force driving the economy. It means that movements in the production and pricing of goods and services are increasingly conditioned not only by supply and demand in the real economy but by the increasingly autonomous movements in the values or prices of financial instruments tracking goods and services. It also means that speculative transactions overshadow the process of production as the source of profits, leading to a situation in which the wealth of the financial elite in the banking and shadow-banking sectors eclipses the non-financial capitalist elites. Though it accounted for only 8 per cent of the US Gross Domestic Product (GDP), the financial sector raked in 30 per cent of the profits in recent years, with some analysts saying that the actual figure was 50 per cent.[1]

Delinking the Finance–Production Circuit

What accounts for the dominance of finance in contemporary capitalism? In the standard Economics 101 description of the financial system, it is the subsystem of the economy that channels money from those who have it (savers) to those who need it in order to invest in production (investors). This relationship is what has been lost or delinked in contemporary capitalism, with finance increasingly losing its relationship with production and becoming an end in itself.

This delinking of the relationship between creditor and debtor, saver and investor, or financier and entrepreneur has been expressed in different, though complementary, ways by Marx and Keynes.

In Volume 2 of *Capital*, Marx talks about the normal production circuit of 'M-C-M' (Money–Commodity–Money) being occasionally displaced by 'M-M' (Money–Money). This occurs, he says, because '[to the possessor of money capital] the process of production appears merely as an unavoidable intermediate link, as a necessary evil for the sake of money-making. All nations with a capitalist mode of production are therefore seized periodically by a feverish attempt to make money without the intervention of the process of production'.[2]

To Keynesians, the hegemony of finance stems from what Keynes saw as the contradictory functions of money as capital and money as store of value. Uncertainty about the future leads savers to prefer keeping their wealth in liquid or monetary form rather than lent as capital to be invested in production, a phenomenon he famously described as 'liquidity preference'. Money as a store of value, say Keynesians Massimo Amato and Lucca Fantacci, 'makes it possible for saving to be unconnected with concrete goods and to take place rather through the constant and indefinite accumulation of abstract purchasing power….'.[3] This process of accumulation unconnected with production leads to a destabilising expansion of liquidity that is made possible by the creation of multiple forms or instruments of credit that go far beyond the stock and bond markets to embrace the so-called innovations of financial engineering such as mortgage-backed securities(MBSs) and derivatives. With finance increasingly taking on autonomous dynamics of its own, becoming more and more delinked from the productive process, 'the fundamental instability of capitalism', argued the famous Keynesian Hyman Minsky, 'is upward. After functioning well for a time, a capitalist economy develops a tendency to explode, to become "euphoric"'.[4]

Filling out Minsky's dynamic picture of the processes unleashed by speculation, Bill Lucarelli writes:

> The economy therefore tends towards disequilibrium as these destabilizing financial forces assume ever more speculative forms. Asset price inflation during the peak of the boom will generate an increase in investment and consumption through the various channels of income and cash flows. When the price of capital assets exceeds the price of current output, excess investment is channeled into rising equity markets, which also encourages investors to increase their leverage. An implicit capital gain is realized, which merely serves to attract more investment. In other words, the rise in the price of capital assets relative to the price of current output could set in train quite perverse wealth effects, which amplify increases in consumption and investment.[5]

The critical moment comes when there is widespread realisation that the asset price bubble is about to burst and there is a rush towards liquidity and riskless assets before the value of financial assets collapse. This is the so-called 'Minsky Moment', a phenomenon that accelerates the destruction of values. Essentially, this is what happened in 2007-2008.

The Causes of Financialisation

In Marx's day, financialisation as the key mechanism for creating profits was considered a periodic aberration. In recent years, however, it has become the dominant means of extracting profit. How did this happen? Financialisation stems essentially from the crisis of production that began in the late 1970s. This took the shape of a crisis of overproduction that overtook the global capitalist economy after the so-called *trentes glorieuses* or 'Glorious Thirty Years' of expansion after the Second World War. Overproduction was rooted in the swift and successful economic reconstruction of Germany and Japan and the rapid growth of industrialising economies such as Brazil, South Korea and Taiwan. This added tremendous new productive capacity and increased global competition, while income inequality within and between countries limited the growth of purchasing power and effective demand. This classic crisis of overproduction – or underconsumption, to use Paul Sweezy's formulation – led to a decline in profitability.

There were three exits from the crisis of profitability that capital took: neoliberal restructuring, globalisation, and financialisation. Neoliberal restructuring essentially meant redistributing income from the middle class to the rich to provide the latter the incentive to invest in production.

Globalisation of production involved locating production facilities in low-wage countries to increase profitability. While these two strategies brought a rise in profitability in the short term, in the medium and long term they were self-defeating since they brought about a downturn in effective demand by cutting into or preventing the rise of workers' wages.

Key Dimensions of Financialisation

That left financialisation. Financialisation had a number of key aspects, but three must be stressed.

First, financialisation involved the massive creation of indebtedness in the population to substitute for stagnant incomes in order to create demand for goods and services. Much of this debt was financed by the infusion of borrowed money from Asian governments recycling cash to the US drawn from the trade surpluses they enjoyed with the latter. The main avenue taken by to create debt in the US was through the provision of so-called subprime housing loans to a huge swathe of the population. These were loans that were indiscriminately given to home buyers with little capacity to repay them, so that they were essentially ticking time bombs.

Second, financialisation involved so-called innovations in financial engineering that would facilitate liquidity. One of the most important – and eventually most damaging – was securitisation, which involved making traditionally immobile contracts such as mortgages liquid or mobile and tradable. With mortgages securitised they could be traded, leading to the disappearance of the original creditor–debtor relationship. Furthermore, financial engineering allowed the original subprime mortgage to be combined with better quality mortgages and sold as more complex securities. But even as mortgage-based securities were combined and re-combined and traded from one institution to another, they could not escape their underlying quality, and when millions of owners of the original subprime mortgages could no longer service their payments owing to their low incomes, this development spread like a chain reaction to the trillions of mortgage-based securities being traded globally, impairing their quality and bankrupting those holding significant quantities of them, like the Wall Street investment bank Lehman Brothers.

MBSs were just one example of the innovations of financial engineering, which were broadly known as 'derivatives', which were meant to facilitate liquidity, but ended up encouraging massive indebtedness built on a frail foundation of equity or real wealth. Market participants marked by a high ratio of debt to equity were described as being 'highly leveraged'. How highly leveraged Wall Street was prior to the crisis was indicated by the fact that the value of the total volume of traded derivative financial instruments was an estimated $740 trillion, compared to a world GDP of $70 trillion.

Mathematicians hired by Wall Street forms formulated the most complex equations to foster the illusion of quality when in fact securities rested on assets of questionable value, a practice that provoked the legendary investor Warren Buffet to make his famous remark that derivatives were 'weapons of mass destruction, carrying dangers that, while latent, are potentially lethal'.[6] He emphatically ruled them out of his investment portfolio because he could not understand how they worked. That Buffet's warning about derivatives was not exaggerated was underlined by the subprime mortgage crisis that hit the US economy in the mid-2000s.

The third key feature of financialisation was that many of the key actors, institutions, and products that were at the cutting edge of the process were either unregulated or poorly regulated. Thus there emerged the so-called 'shadow banking industry' alongside the regulated traditional banking industry, with non-traditional financial institutions like Goldman Sachs, Morgan Stanley, and American International Group (AIG) serving as the first massive wave of a tsunami that brought with it the introduction of securitisation, financial engineering, and novel products such as MBSs, collateralised debt obligations (CDOs), and credit default swaps (CDSs).

The subprime implosion of 2007 revealed the essential dynamics of financialisation as a motor of the economy, that is, that it depended on the creation and inflation of speculative bubbles. Profit-making rested on the creation of massive debt with a very weak foundation in real value or equity. While the illusion of MBSs as solid securities persisted, Wall Street operated like a casino, with investors using different financial products to bet on the movements of the values of assets and their derivative products in order to make a killing. A killing meant buying securities at the 'right price' at the 'right time', then selling once their price had increased significantly and before they declined. Once events exposed the fragile foundations of high-flying securities, however, market participants panicked and ran for the exits, selling off their holdings as quickly as possible to salvage some value, a process that accelerated the plunge of values to negative territory.

The Global Financial Crisis, Phase 1

In 2008, capital markets froze and banks even refused to even lend to each other, owing to fears that their prospective debtors might be loaded with toxic assets. Lehman Brothers was, in fact, loaded with worthless MBSs. When other banks refused to extend it credit and Washington likewise withheld assistance, Lehman declared bankruptcy. Lehman's bankruptcy pushed the financial system to the edge of collapse, so that the government had to step in to restore confidence in the banking system. Washington bailed out the biggest financial players, with an initial rescue fund of over $700 billion, with supplementary financial support and guarantees over the next few years. The government's rationale was that Citigroup, JP Morgan, Bank of America, Wells Fargo, Goldman Sachs and other top US financial institutions were 'too big to fail' – allowing them to go bust would bring the whole global capitalist system down.

The financial crisis was followed by the Great Recession, the second biggest economic disaster to hit the US after the Great Depression. Unemployment rose from under 5 per cent in 2007 to 10 per cent in 2010. By 2015, the number of unemployed was still above the 6.7 million at the officially designated start of the recession in 2007. More than four million homes were foreclosed and thousands were plunged into poverty and great uncertainty as the government prioritised saving the big banks rather than bankrupt homeowners.[7]

The ability to remain unaccountable to society despite having inflicted on it a grievous wound is the ultimate measure of power. The bailout of the biggest US banks, despite the obvious bankruptcy of some and the role they had all played in bringing about the worst economic crisis in the US since the Great Depression, testified to the tremendous power that had been amassed by finance capital.

Global Financial Crisis, Phase 2

Initially regarded by European leaders like German Chancellor Angela Merkel as a crisis that was limited to Wall Street, the financial crisis spread to Europe fairly quickly.

In the UK, the crisis followed the US pattern of high leveraging or creation of massive indebtedness by private banks, much of it via the creation and exchange of massive amounts of subprime mortgage-based securities, system failure owing to the destruction of bank balance sheets when these securities became toxic, then the state stepping in to save the banking system.

In Ireland and Greece, especially the latter, the second phase of the global financial crisis kicked in: the so-called sovereign debt crisis. Massive indebtedness of private banks and, in the case of Greece, the state itself, to foreign banks forced the state, owing to tremendous pressure from the domestic governments of these banks, to assume responsibility for repaying all debt, both private and public. To save the highly exposed German and French banks, the European Union (EU) establishment and the International Monetary Fund (IMF) provided loans to the states in severe crisis that were then transformed into payments to the private banks, with the condition that these states impose harsh austerity programmes that were ostensibly meant to cough up the resources to repay the loans to the official lenders and nurse the afflicted economies back to health.

There was, however, a contradiction at the heart of this formula. Germany's government and the other governments of the rich Northern Europe demanded that the Southern European countries deepen austerity measures in exchange for official loans to stay afloat. However, the austerity measures crippled the ability of these economies to grow and produce the surplus to repay the loans, making repayment an ever more distant possibility with each new loan extended the supplicant. Former Greek Finance Minister Iannis Varoufakis called this relationship one of 'extend and pretend', that is, extend a loan and pretend it can be repaid, while the conditions attached to the loan would make this impossible, all with the goal of avoiding a formal default on the part of the debtor, with its unpredictable consequences. Illustrating his argument with the case of Greece, he wrote:

> [N]o sane investor is attracted to a country whose government, banks, companies, and households are all insolvent at once. As prices, wages, and incomes decline, the debt that underlies their insolvency will not fall, it will rise. Cutting one's income and adding new debt can only hasten the process. This is of course what happened to Greece from 2010 onwards...In 2010, for every 100 euros of income a Greek made, the state owed 146 euros to foreign banks. A year later, every 100 euros in 2010 of income earned in 2010 had shrunk to 91 euros before shrinking again to 79 euros by 2010. Meanwhile, as the official loans from European taxpayers came in before being funneled to France and Germany's banks, the equivalent government debt rose from 146 euros in 2010 to 156 euros in 2011.[8]

As Varoufakis correctly forewarned, the situation in Greece in 2018 had not improved and the country was locked in permanent austerity and permanent indebtedness. While not as dire, the situation in Portugal, Spain, and Italy was essentially the same.

There were obvious differences in the way financial crises unfolded in the US and Europe. But there was one thing that they shared: the ability of the financial sector to go unpunished and remain unaccountable for its massive mistakes. As in the US, this was the ultimate measure of the power finance capital had achieved over both society and the state.

The Failure of Reform

When Barack Obama became the US president in 2008, one of his priorities was to fix the global financial system. Ten years later, it is evident that owing to a combination of timidity on the part of government and resistance on the part of finance capital, little reform took place under Obama and his counterparts in the rest of the world, despite the high-sounding commitments to global financial reform made by the Group of 20 Summit in Pittsburgh in 2009.

First, the 'too big to fail' problem has become worse. The big banks that were rescued by the US government in 2008 because they were seen as too big to fail have become even more too big to fail, with the 'Big Six' US banks – JP Morgan Chase, Citigroup, Wells Fargo, Bank of America, Goldman Sachs, and Morgan Stanley – collectively having 43 per cent more deposits, 84 per cent more assets, and triple the amount of cash they held before the 2008 crisis. Essentially, they had doubled the risk that felled the banking system in 2008.[9]

Second, the products that triggered the 2008 crisis are still being traded. This included around $6.7 trillion in mortgage-backed securities sloshing around, the value of which has been maintained only because the Federal Reserve bought $1.7 trillion of them.[10]

US banks collectively hold $157 trillion in derivatives, about twice global GDP. This is 12 per cent more than they possessed at the beginning of the 2008 crisis. Citigroup alone accounts for $44 trillion, or 50 per cent more that its pre-crisis holdings, prompting a sarcastic comment from one analyst that the bank seems 'to have forgotten the time when they were a buck a share', alluding to the low point in the bank's derivatives' value in 2009.[11]

Third, the new stars in the financial firmament – the institutional investors' consortium made up of hedge funds, private equity funds, sovereign wealth funds, pension funds, and other investor entities – continue to roam the global network unchecked, operating from virtual bases called tax havens, looking for arbitrage opportunities in currencies or securities, or sizing up the profitability of corporations for possible stock purchases. Ownership of the estimated $100 trillion in the hands of these floating tax shelters for the super-rich is concentrated in 20 funds.

Fourth, financial operators are racking up profits in a sea of liquidity provided by central banks, whose releasing of cheap money in the name of ending the recession that followed the financial crisis has resulted in the issue of trillions of dollars of debt, pushing the global level of debt to $325 trillion, more than three times the size of global GDP.[12] There is a consensus among economists along the political spectrum that this debt build-up cannot go on indefinitely without inviting catastrophe.

Fifth, instead of more tightly controlling the financial sector, some countries have followed the advanced capitalist economies in liberalising it. In China, the world's second biggest economy, this has created a dangerous conjunction of factors that could lead to a financial implosion: a volatile stock market, a property bubble, and an unregulated shadow-banking sector. The number of vulnerable points in the world economy has increased and all are candidates for the next big crisis.

What Is To Be Done?

The author's recent study sponsored by the Transnational Institute, lays out a detailed rationale for 10 major imperatives for the global financial sector.[13] These are:

1. Restrict operations of hedge funds and close tax havens;
2. Ban mortgage-backed securities and derivatives;
3. Move towards 100 per cent reserve banking;
4. Nationalise financial institutions that are 'too big to fail';
5. Reinstitute the Glass–Steagall Act that placed a 'Chinese wall' between commercial banking and investment banking;
6. Place drastic limits on executive pay;
7. Phase out credit ratings agencies like Moody's and Standard and Poor;
8. Convene a new Bretton Woods Conference to set up new institutions and rules for global financial governance, end the dollar's monopoly as the world's reserve currency, and establish new, fair arrangements for development and climate finance;
9. Make central banks accountable; and
10. Move towards full political, fiscal, and monetary union in the Eurozone countries or exit from the euro.

The proposed measures constitute a 'minimum programme', or a set of moves that strengthen the world's defences against another financial crash, albeit not eliminating the possibility of such an event. Capitalism as a system is structurally prone to generate financial crisis, and the programme outlined above assumes a global economic system that continues to function under its rules. The successful implementation of these reforms would be a giant step in a longer process of transformative change. That change cannot, however, take place without fundamentally addressing other key dimensions of capitalism, especially its engine: the insatiable desire for ever greater profits.

Reformed Capitalism or Post-Capitalism?

Ultimately, it is the dynamics of the real economy that determine developments in the financial economy. This is not a novel insight. From the perspective of Marxist economists, the gyrations of the financial economy are a result of the deep-seated contradictions in the real economy, in particular the tendency towards overproduction, or supply outstripping demand owing to the persistence of great inequality.

If weak demand in the real economy brought about by inequality is the problem, then it is obvious that the monetary measures taken over the last few years by financial authorities such as 'quantitative easing' of credit flows and negative interest rates to counteract recessionary pressures can bring only very limited and temporary relief to an economy in crisis and may in fact deepen the crisis in the medium term. Indeed, without addressing the crisis of demand in the real economy, a reformed financial sector would find it difficult to resist the intense pressures for capital to seek profitability in finance rather than in a stagnant productive sector.

For some, then, the most urgent need is how to reform capitalism. In their view, a programme of financial reform would have to be integrated into a more comprehensive programme of drastic reform of capitalism. This enterprise would have to seriously address the lack of demand rooted in increasing inequality. It would have to bravely acknowledge its roots in the unequal power relations between capital and labour, how this unequal power translates into increasing inequality, and how inequality translates into anaemic demand that acts a brake on the expansion of production.

For others, the situation demands a solution beyond a reform of capitalism, even of a radical Keynesian kind. From their perspective, capitalism's constant search for profitability is a fundamental source of instability that will ultimately undermine all efforts at reforming it – as happened to post-war Keynesianism in the late 1970s. Moreover, what needs to be addressed is not just social inequality and lack of demand but the drive of the productive system to grow at the expense of the biosphere. What is needed, they say, is a post-capitalist programme, made all the more urgent by the climate catastrophe in the process of unfolding. Indeed, in some circles, a strategy of 'de-growth' is increasingly seen as necessary.

Amidst this increasingly heated debate on alternative systems, there are two things on which there is consensus. First, that continuing on the current path of a loosely regulated finance-driven capitalism is to invite another financial catastrophe, perhaps one worse than the 2007-2008 crisis. Second, that moving away from this road to ruin will necessitate taking on and breaking the power of finance capital.

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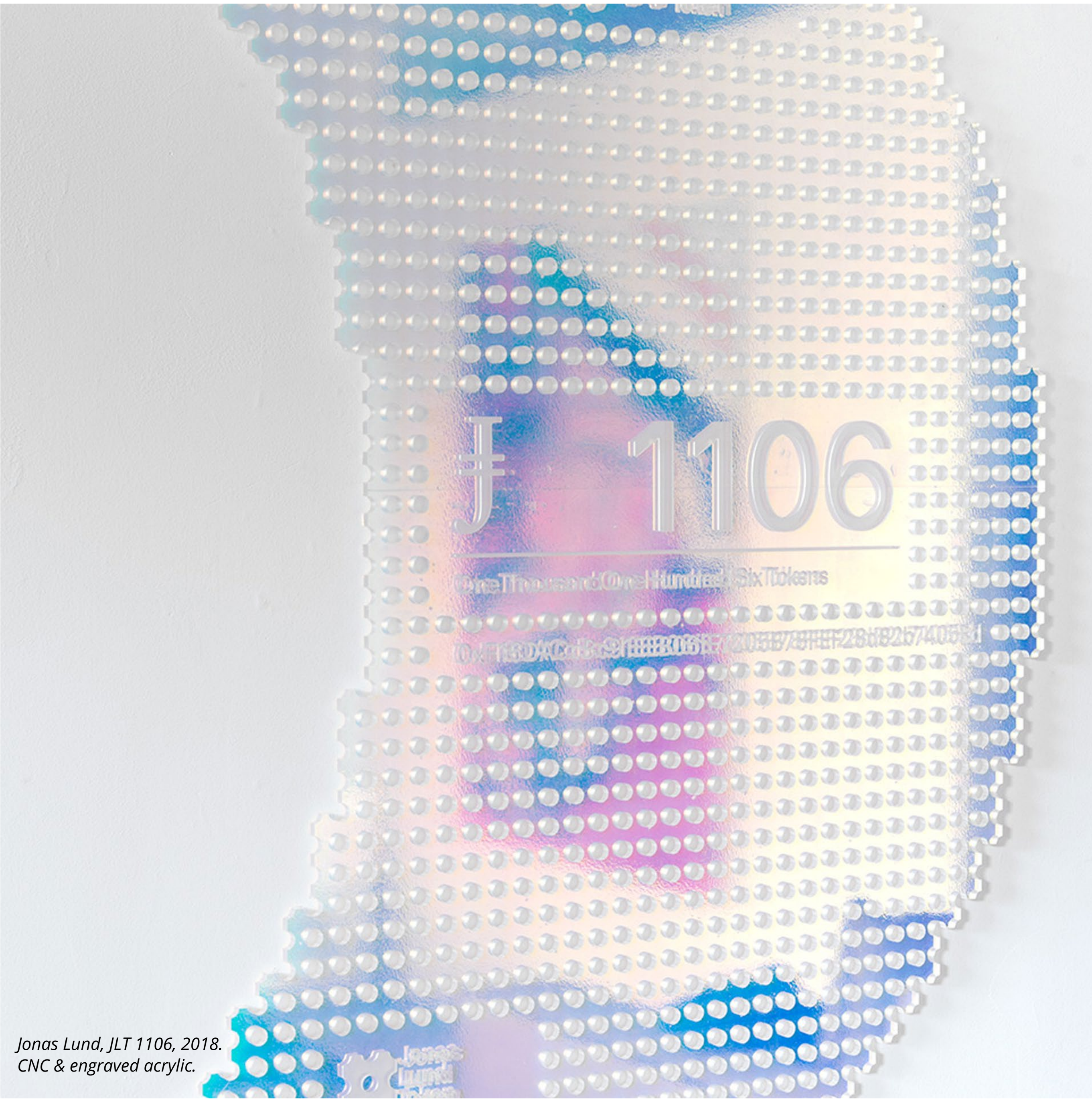
STATE OF POWER 2019

Art, Capital of the Twenty-First Century

Aude Launay



Jonas Lund, JLT 1106, 2018.
CNC & engraved acrylic.

Shielding itself in arcane guise to keep laymen away and, thereby, to shun any possibility of democratic supervision, finance has always created reality out of beliefs and stories, turning appraisal into numbers on which their trades are based. Fluctuations in markets reveal more changes in the minds of traders than actual variations in the companies traded. Being mainly composed of reflexive actions, the markets operate in a vacuum. The high volatility of finance seem to reverberate the 'nothingness' on which it relies. It is a world that artists understand well, challenging its power with its very means.

What after all is an artwork? In literal terms, it is production time and material turned into an object, a commodity. The commodity's value is not dependent on its inherent properties, however, but on the narratives attached to it – narratives built from the discourses and actions of collectors, curators, art historians, and so forth. Thus this value is not objectively determined. 'In short, the value is not in the product but in the network' argues artist and theorist Hito Steyerl, describing art as 'a networked, decentralized, widespread system of value' while comparing it to cryptocurrencies whose value is, as we know, not guaranteed by any central institution and whose state is maintained through distributed consensus.[1]

As the history of art is rooted in the subjective theory of value – despite a few historical attempts to rationalise the labor of art[2] –, so is the act of collecting art objects. 'The mechanism of the collection makes it possible, in the same way as financial transactions when they deviate from investment *stricto sensu,* to generate scarcity from everything or, which amounts to the same thing, nothing – including waste – since by relying on the construction of serial forms of totalization, it creates gaps that imperatively require to be filled.'[3] The libidinal power of capitalism could not express itself more clearly. Behind every artwork or so stands a commissioner, a buyer, someone to evaluate it.

Most contemporary artworks rarely reach the public eye. Emerging artists' works will be displayed in independent art spaces with a reduced audience; if the artists are the slightest bit successful, the works will be shown a few times in galleries and fairs mainly attended by professionals and jet-setting collectors; and, if the works are sold, they will probably end up out of sight in some private collection at best, or in a gallery storage from where they will never emerge, if not in climatised crates in some free port along with wine bottles and cigars[4]. So why buy art then? Because it's easier to manage than buildings? Or because of the relative murkiness of the market? The real numbers of this market are never precisely disclosed and the opacity of the reports[5] put out by some of its insiders thwart attempts to establish them. Not to mention resorting to fake bids at auctions and to offshore companies[6] as disguised owners. Artworks thus make great speculative assets. Buyers share a common interest in keeping their prices high and, to avoid paying import and other taxes, the wealthiest use free ports to store their works: despite changing owner, some works are never unpacked, simply shifting from one assets balance sheet to another. For the researcher Max Haiven, the real purpose of free ports 'is to remove art from worldly circulation, while preserving it for purely financial or speculative circulation', to liquefy art 'into a market substance.'[7] Oscillating between safe-haven investments and speculative bubbles, the art market appears to be a synecdoche for financialisation.

Looking at Capital

We talk about patterns in financial analysis as much as in painting. Sometimes art even goes so far as to reflect its very fluid conditions. Whereas each painting of the series *Strings Attached* (2015) by Jonas Lund takes charge of its own appearance on the market by bearing sentences such as 'This painting may never be sold at auction', 'This painting must be resold by March 21, 2017' or 'This painting must be sold to a collector based in Mexico', embodying the discrepancy at work in the activities of any art gallery that attempts to develop its artists' careers while fending off pure speculation, some artists such as Sarah Meyohas or James Gubb go even straighter to the point, making financial markets their medium, drawing with stock prices, in the market representations. When Meyohas[8] said she was looking at her performance (2015–16) 'as a line first, then a stock', explaining that she chose a specific stock to trade 'because of its name, and because nobody else was doing so', making all movements of the line of the stock her performance, which she 'executed at precisely 20-minute intervals to delineate intention', she was exposing the literalism of the markets, its reality created by its own actions. James Gubb[9] – an experienced trader turned artist – drew a middle finger (2017) on the Johannesburg stock exchange as a sign of protest against a massive financial fraud, a gesture for which he was fined on the grounds that: 'these transactions created a false and deceptive appearance of the trading activity'.

Sarah Meyohas, Stock Performance, 2015.

Making finance visible has long been an obligation for artists, which can be traced back to the origins of the links between artists and money[10], that is to say at least to 35 BC when the Roman arts sponsor Caius Cilnius Mæcenas appeared as a character in Horace's *Satires*, which he had patronised. The Middle Ages and much more the Renaissance[11], of course, saw the expansion of this practice – with the patrons generally depicted among the background characters of the religious scenes in the paintings they had commissioned – until it became a subject of interest in itself in the painting of Gustave Courbet. Highly influenced by the utopian socialist thinking of Fourier and closely connected to Proudhon, Courbet aimed at what he called 'a democratic art', an art about the people and for the people, produced independently from the state support and not meant to please the Parisian collectors. *La Rencontre*, that he painted in 1854, is emblematic of his views: it challenges the fawning deference of the sycophant poets and painters to their patrons with a composition veering to anarchism, depicting the artist himself as an equal of the person who had commissioned him, and even slightly looking down on him.

A few years earlier, in 1845, the British photography pioneer William Henry Fox Talbot took four exposures of the London Royal Exchange – which had just been rebuilt after it burnt down in the very year photography was publicly presented as a new technology – devoid of activity. What sounds like an anecdote actually forms the base of Zachary Formwalt's ongoing film series revolving around the idea of documenting the movements of capital. *In Place of Capital* (2009) starts with an impossibility stated in a voiceover: 'the activity of finance is not particularly visual per se. It's not like watching a car get made on an assembly line. You could have a lot of charts and graphs to show movements of money but I'm not sure you're ever going to capture the movements of capital markets cos there's not much to see. Specially now that everything is electronic.' Through the prism of image making, the artist addresses the matter of the (in)visibility of finance, of capital.

In his 1844 *Paris Manuscripts*, Marx defines money as the medium for turning 'an image into reality and reality into a mere image'. Money, like photography, freezes the process that led to its appearance as a fetishised object. But in any way, capital's movements elude photographic capture. 'When capital assumes the form of money, its movements, its history vanishes', adds the voiceover. From one façade to another, the camera moves from the Greek temple-like Royal Stock Exchange to the sleek glass and steel ABN AMRO headquarters in Amsterdam to reflect on a story that broke just as the film was being made. A seventeenth-century Dutch painting depicting Amsterdam's flourishing real estate development along its canal that had been acquired by the Rijksmuseum the year before was then claimed by the US bank JP Morgan Chase and by ABN AMRO. The canal view had been used as a collateral on loans that the collector had ceased to reimburse, and it's a delicious irony that when Zachary Formwalt was examining the use of images of corporate buildings' façades as press illustrations for financial news – the starting point of his research –, this painting of façades of the city's most expensive buildings was in itself incarnating capital's movements, and making it both visible and opaque, as does any façade, being both a closing surface but also an entrance to the inside.

Five months earlier, in December 2008, the largest financial fraud of all time was made public and JPMorgan Chase, the main bank of the Madoff hedge-fund, and ABN AMRO, among many other financial institutions, were then suspected of complicity. The general outline of the Bernie Madoff story is well known, his personal ideas underpinning it a little less. It is those ideas that Julien Prévieux sought to expose when he bought at auction some 200 of the 1,500 books that formed the financier's library. If part of it resembles the average Jane & Joes' library, with its best-sellers and thrillers, it's not just that it included technical finance manuals that made it look prophetic, it's our reading of these titles *post-factum*. *Sons of Fortune*, *Backlash*, *No Second Chance*, *End in Tears, White Shark* or even *The Oath*, signed by its author Elie Wiesel – whose foundation lost US$15 million in the scam –, have been carefully displayed on a very long shelf by the French artist for *Forget The Money* (2011). Ironically enough, the artwork – the books bought by the artist but resold with added artistic value – was purchased by a French whistle-blower who had revealed an important political-financial scandal[12] in 1999.

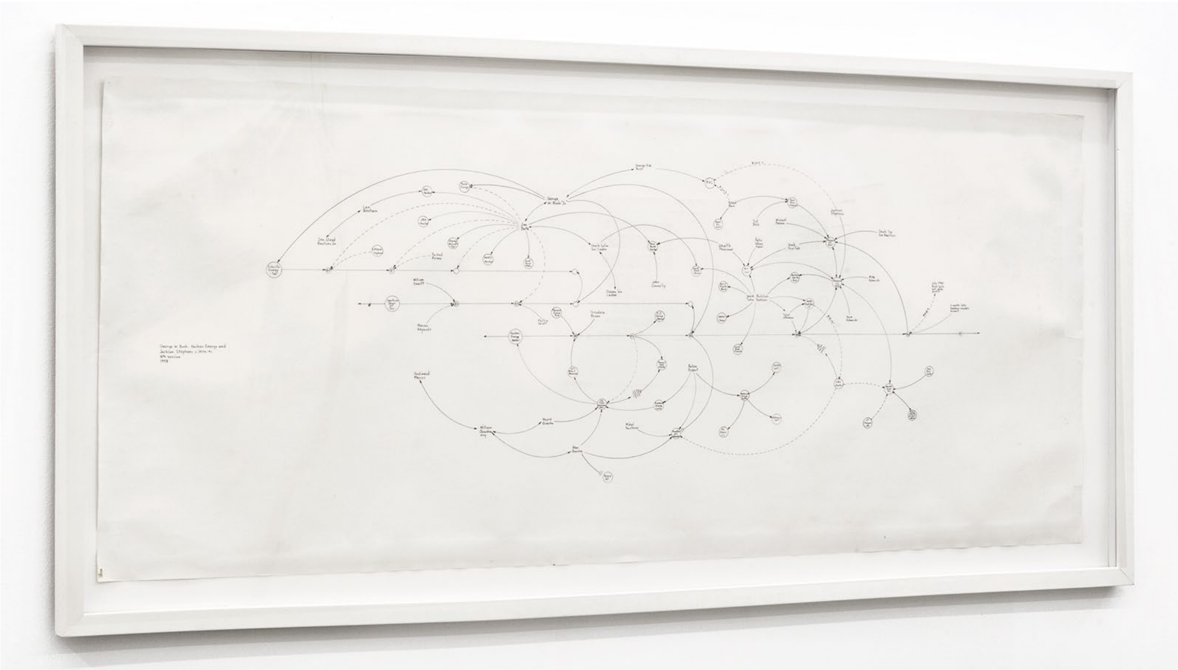
Mapping Capital

The Madoff Ponzi scheme is what we commonly call a white-collar crime – a financially motivated fraud committed by business or government professionals.

Observing that predictive policing systems disproportionately target "street crime" rather than white collar crime, the Dark Inquiry team devised a white-collar crime-prediction tool that uses the same methodologies used by similar law enforcement in the US, the Netherlands, Germany, Switzerland and China, and tested in other countries such as France, but using a data set they filled with information retrieved from the US Financial Regulatory Authority. White Collar Crime Risk Zones (whitecollar.thenewinquiry.com) is now an iOS app conceived to alert its users when they are entering high-risk areas for financial crime. It is designed as a heat map covering the US and its territories (and Bermuda), showing the likelihood of the occurrence of a crime in a specific zone, its nature, approximated severity, and, for New York City, the average face of the potential criminal per zone. In order to do so, Brian Clifton, Sam Lavigne, and Francis Tseng scraped the profile pictures of 7,000 corporate executives working in finance on LinkedIn to generate those faces which, despite being all unique, look almost all the same: like a relatively young white smiling male, for a change. While Delaware stays strangely greenish on the map, Manhattan is crimson. Under the aegis of *The New Inquiry* of which the Dark Inquiry is part, the app is referred to as a piece of 'rhetorical software', a critique that 'is not merely speculative or performative; but which actually *enacts* its proposal', in other words, criticism taking action. This work was actually so effective that a cybersecurity specialist mistook it for one of the many systems used by the police and denigrated it in an article[13] considering the biases of AI in predictive policing.

White Collar Crime Zone, interface.

When it comes to making use of data, direct action generally depends on a visualisation process, which often takes the form of a map. 'The accumulation of numbers by the Information Society has reached the point at which numbers themselves turn into space and create a new topology.'[14] And while data visualisation becomes the new landscape painting, finance is one of its hot topics. The specificity of Mark Lombardi's work is that it dares to go further than any journalist would in one and the same piece. Pulling the threads, pushing the limits of connections, his drawings depict diagrams which invite the viewer to investigate the links represented by various kinds of arrows placed between key players in contemporary power relations that led to major events. A very good example of these is *George W. Bush, Harken Energy and Jackson Stephens c. 1979-90* (1999 for the last version), five versions of which having been painstakingly produced – updating his drawings when new pieces of information surfaced was indeed part and parcel of Lombardi's practice.



Mark Lombardi, George W. Bush, Harken Energy, and Jackson Stephens, c. 1979–91, 4th version, 1998. Graphite on paper. Photo: Gianmarco Bresadola. Courtesy of Robert Tolksdorf. Exhibition 'Evidentiary Realism' at Nome gallery, Berlin.

Based, like each and every of his charts, on publicly available information, this one traces a network of actors – individuals and corporations – involved in the Iran-Contra affair, in the Gulf War, in Cayman Islands front companies, in the BCCI, UBS, etc., and revolving around the figures of George W. Bush, George H.W. Bush, Robert S. Mueller, Sheik Salim bin Laden, Sheik Mohammed bin Laden, and Osama bin Laden, among many others, mainly through the name of James R. Bath. Money laundering, tax evasion, arms brokering and terrorism financing are here exposed simply, freehand drawn on paper with graphite or ballpoint pen, in a form that has been described as 'a post-Conceptual reinvention of history painting' whose great force comes from all the space for interpretation it leaves to the viewer. Breaking the linearity of the narrative, 'presenting nothing but data and pattern, Lombardi reminds us that data *is* pattern'.[15] Eschewing the internet or computers in his research and production process, Lombardi mapped a global history of the clandestine paths taken by money in these late-analogue age artworks which defy, in their austere look, the many luxuriant digitally generated data visualisations that now populate media and exhibitions. Among these, we could mention *The Mossack Fonseca Universe* (2016), an interactive map that deploys the network of shareholders, companies and agents that have used the services of the law firm, designed for the news website Fusion[16] by the aforementioned Brian Clifton. Artists producing investigations[17] and news media publishing visualisations echo the fine line there is between those practices, and although Clifton who now works as a data scientist says he used to be an artist, implying that he no longer wishes to be considered one, the White Collar Crime Risk Zones – which wasn't thought of as art by its creators – was regarded as such by the art world.

Soon after 9/11, an FBI agent asked the Whitney Museum to examine the Lombardi's work they had acquired.

Not only are the representations of finance really abstract, but the very idea of finance itself becomes increasingly so as it becomes more complex, embedded in the increasing financialisation of economies. According to the Dutch artist Femke Herregraven, the vocabulary of finance is deliberately abstract and all the metaphors used to describe its processes render it more opaque. Funnily enough, images of water, such as 'flows of capital', 'the market has frozen' or 'evaporated', 'ripples', 'tides' and 'waves', could induce an idea of transparency, but this is not so. 'Offshore' is one of them. All those words seem to express a willingness to consider finance and, more broadly, economy, as a natural phenomenon, although it is of course a purely human construction. Offshore, with the image of a far-off island it conveys, is probably used to disguise the fact that actually most of the tax havens are continental, even OECD member countries. In 2014, Swiss financial centres were managing a third of the global offshore finance while the rest is mainly circulating in UK and US dependent territories. The Dutch government, for instance, promotes its favourable fiscal climate the way it would do with any other locally sourced product, as Herregraven likes to remind us. Thus, in 2011, she went to explore the Zuidas, Amsterdam's business district where ABN AMRO headquarters are located and, from her research on the companies registered in the neighbourhood – but invisible there – produced a book that indexes them by address, uncovering thousands of 'mailbox companies' whose names required little effort as they are usually 'declensions' of one proper name followed by numbers or initials, as shown in the pages of this front companies directory titled *Geographies of Avoidance.*

Femke Herregraven, Geographies of Avoidance, 2011. Book.

To make the procedures of offshoring more accessible to the public, she then designed *Taxodus* (http://taxodus.net, 2013), an online game incorporating real data about tax regulations and treaties, in which the players, on behalf of the major company of their choice, have to strategically avoid being taxed as much as possible. The chosen paths are recorded and made available in a public database that the artists describes as 'a crowdsourced research in tax avoidance'.

Femke Herregraven, Taxodus, 2013, Online game.

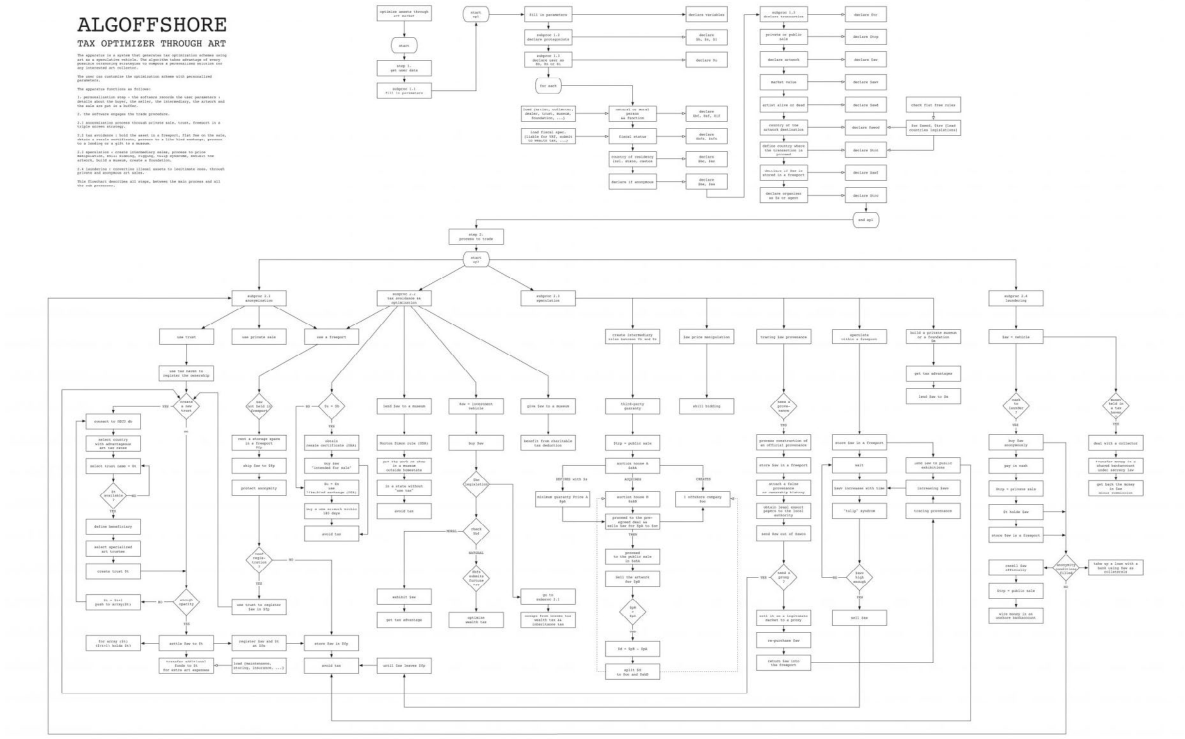
A step further in interaction, the French art collective RYBN built the *Offshore Tour Operator* (2018), an Android app that couples a GPS function with the ICIJ Offshore Leaks database (https://offshoreleaks.icij.org/) addresses (among which are the Offshore Leaks, the Bahamas Leaks, the Panama Papers and the Paradise Papers), and conducts regular workshops with its users. They have observed that once the app has helped them to locate and 'visit' nearby places, people dare to enter buildings, climb the stairs, ring bells, and sometimes even leave messages in the mailboxes, all things they wouldn't normally do wandering through their neighbourhood. The app enables a superimposition of relatively abstract and distant information onto a familiar geography (as people tend to use the app in the city where they live, although it can also serve as a touristic tool) and increases user's attentiveness to their surroundings, pushing them to notice small details that might or might not be related.

RYBN, The Great Offshore, Valletta Offshore Tour, Malta, 2018.

This piece stems from a larger research project entitled *The Great Offshore* (2017) that RYBN presented at the last edition of one of the Basel art fairs[8] along with pictures of the Swiss city they had shot while sightseeing with the app prototype.

RYBN, The Great Offshore, Luxembourg City Offshore Tour, Luxembourg: Stock Exchange Quartier, Luxembourg City, 2018.

Unsurprisingly, the visitors' reactions were utterly interesting: some said 'Luckily, our place is not on the pictures!' and others, inspecting the *Algoffshores* also exhibited, commented on the flowcharts representing strategies of offshoring and tax optimisation schemes making use of the art market, saying 'My method is missing there!' and advising the artists. One of the Wildensteins' lawyers also dropped by and asked for copies of some of the exhibited documents.[18]



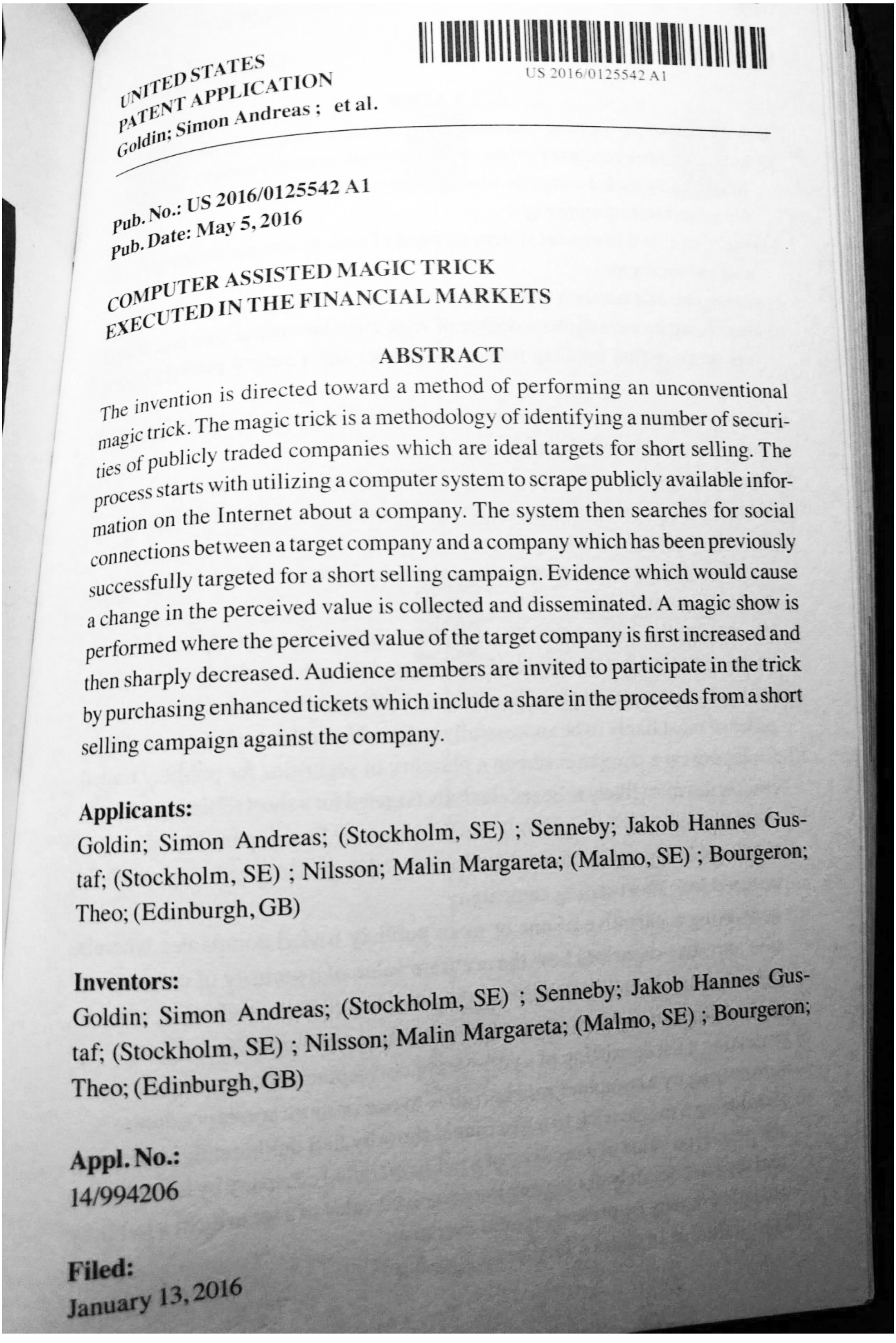
RYBN, ALGOFFSHORE 2: TAX OPTIMIZER THROUGH ART, 2018.

The conversations were relaxed, the visitors who could relate to the works read them as tokens of recognition, as part of their daily business. But when the same works were presented in a technological innovation context at a trade fair in Canada, the reactions were totally different, rather offensive, people reading the project as a provocative denunciation. Although the codes of the *White Collar Crime Risk Zones* app and the *Offshore Tour Operator* are both open source, it might be here that we can really see the difference between what are intrinsically art projects and projects that bother people to the point where they prefer labelling them as art. The art project deliberately presents itself as open to interpretations, to be understood either as an unveiling of wrong practices that make constitutional states loose money or as an apologia for evasion with anarchist leanings, or even as a critique of those same constitutional states for allowing and supporting those shady strategies. The 'criticism' project goes more directly to the point.

Tactical Approaches to Capital

Soon after Femke Herregraven's indexing of the Amsterdam-based front companies, Paolo Cirio started to look into the Cayman Islands' government website to discover which companies were incorporated there – it is common knowledge that these islands are the world capital of hedge funds. While Herregraven drew up her list manually from the Dutch Chamber of Commerce register, the Italian artist supposedly hacked into the Cayman's company register to find the fiscal identification numbers and subsequently drew up a list of the 200,000 companies registered there. Owing to the financial privacy offered by the country, the names of company owners are undisclosed, which led Cirio to propose hijacking their identities to anyone for 99 cents. Selling mockeries of certificates of incorporation used by shell companies, *Loophole for All* (2013) was advertised as such: 'pirating offshore companies to practice tax resistance'. Around 700 people claimed their certificate, from sleazy Russians asking for a lot of details to Spanish farmers snowed under with taxes by way of many freelancers wrestling with invoicing, explains the artist.[19] As with all his spectacular projects, the main aim was to raise awareness on both sides – those unaware of the system, and those exploiting it. The best part was probably when on the national Cayman news,[20] the government denied the hack and reassured the companies that their businesses were 'safe', following which when PayPal deleted the account to which sales revenues were sent, on the pretext that 'PayPal can't be used to sell or receive payments proceeding from items that support or promote any kind of illegal activity'. Paypal being, as Cirio reminds us, incorporated in… Luxembourg. Part of this artwork thus takes the form of a certificate, widely distributed, as opposed to the masterpieces of Conceptual Art quite often seeing their value only incarnated in a single piece of non-reissuable[21] paper: a certificate of authenticity (for which, since 2015, there is specific insurance coverage[22] since the value of these works is not in their physical manifestations but in the instructions to realise them). The story doesn't say if those newly Cayman-based companies' inauthentic owners followed up and actually used their somewhat fictional certificates.

Offshore is quite often described as a fictitious place that persists only because some want it to keep existing and thus decide it exists.[23] 'You cannot go offshore, but your money can.'[24] Since money officially left the regulatory space in 1957 when the Bank of England allowed the US dollar to be traded in The City of London banks without reference to the federal reserve board, it could escape, vanish. Offshore is a story in which characters are fleeting, hiding behind names and numbers that act as screens and masks. The Swedish artists duo Goldin + Senneby, whose work has been tackling the world of finance for more than a decade, mostly do so through the prism of fiction, via collaborations with playwrights, actors, novelists and so on, including auctioning in 2010 the right to appear as a character in their to be ghost-written novel. More recently, they became interested in the practice of short selling and, in particular, in one of the successful firms practising it, a California-based company created by a former Hollywood screenwriter and artist who has purportedly conceived the idea for his hedge fund while looking at a Mark Lombardi drawing. A short investor is someone who borrows shares and sells them, hoping their value will fall in order to buy them back for less, and thus generate added value. For *Zero Magic* (2015-), which they define as 'a trick for the financial markets', Goldin + Senneby hired a sociologist of finance and a magician to design the trick inspired from a shady practice in short selling, which is that of investigating fraudulent companies, then borrowing/selling their shares and dropping their value by alerting the press about their frauds. One of these frauds could be that of artificially inflating its own stock value by means of hiring a reputation manager who would place laudatory articles in newspapers. Both practices involve crafting narratives to either drop or raise a company's shares value. 'In the financial world, it is considered illegal to hire freelance writers to boost the value of a company through spreading affirmative narratives about it. In the art world, it's how we make a living', observes one of the numerous writers commissioned to produce textual matter[25] about the artists.



UNITED STATES
PATENT APPLICATION
Goldin; Simon Andreas ; et al.

US 2016/0125542 A1

Pub. No.: US 2016/0125542 A1
Pub. Date: May 5, 2016

COMPUTER ASSISTED MAGIC TRICK
EXECUTED IN THE FINANCIAL MARKETS

ABSTRACT

The invention is directed toward a method of performing an unconventional magic trick. The magic trick is a methodology of identifying a number of securities of publicly traded companies which are ideal targets for short selling. The process starts with utilizing a computer system to scrape publicly available information on the Internet about a company. The system then searches for social connections between a target company and a company which has been previously successfully targeted for a short selling campaign. Evidence which would cause a change in the perceived value is collected and disseminated. A magic show is performed where the perceived value of the target company is first increased and then sharply decreased. Audience members are invited to participate in the trick by purchasing enhanced tickets which include a share in the proceeds from a short selling campaign against the company.

Applicants:
Goldin; Simon Andreas; (Stockholm, SE) ; Senneby; Jakob Hannes Gustaf; (Stockholm, SE) ; Nilsson; Malin Margareta; (Malmo, SE) ; Bourgeron; Theo; (Edinburgh, GB)

Inventors:
Goldin; Simon Andreas; (Stockholm, SE) ; Senneby; Jakob Hannes Gustaf; (Stockholm, SE) ; Nilsson; Malin Margareta; (Malmo, SE) ; Bourgeron; Theo; (Edinburgh, GB)

Appl. No.:
14/994206

Filed:
January 13, 2016

Goldin+Senneby, Computer Assisted Magic Trick Executed in the Financial Markets, 2016. Patent application, as published in Proxy Politics, Power and Subversion in a Networked Age, RCPP ed., Archive Books, 2017.

In January 2016, Goldin + Senneby filed a patent application for their trick which, as they say, has the capacity to undermine the perceived value of a publicly traded company and profit from this. (The history of patenting in the US is closely linked to that of illegal practices in finance as, only nine years after the creation of the patent system, 'the first financial patent was granted on March 19, 1799, to Jacob Perkins of Massachusetts for an invention for "Detecting Counterfeit Notes"'.)

The patent is of course an amazing reading, minutely detailing the strategy while linking finance to magic in such an obvious way that it sounds, after a few pages, absolutely natural to do so. Except the patent, the artwork here takes multiple forms, from the correlation of facts made by the different writers who collaborated on the project to the certificates of shares ownership distributed during a magic live show, and you're starting to wonder if the artists themselves are not making use of one of those reputation management ghost writers as you see your browser pages filled with articles concerning the facts you were starting to consider as entirely made up. 'Anyway the trick allegedly was performed on April 21 of this year, and the stock did in fact go up a bit, and then down by some 33 percent, over the next three weeks, so there you go' notes a dubious *Bloomberg* opinion columnist.[26]

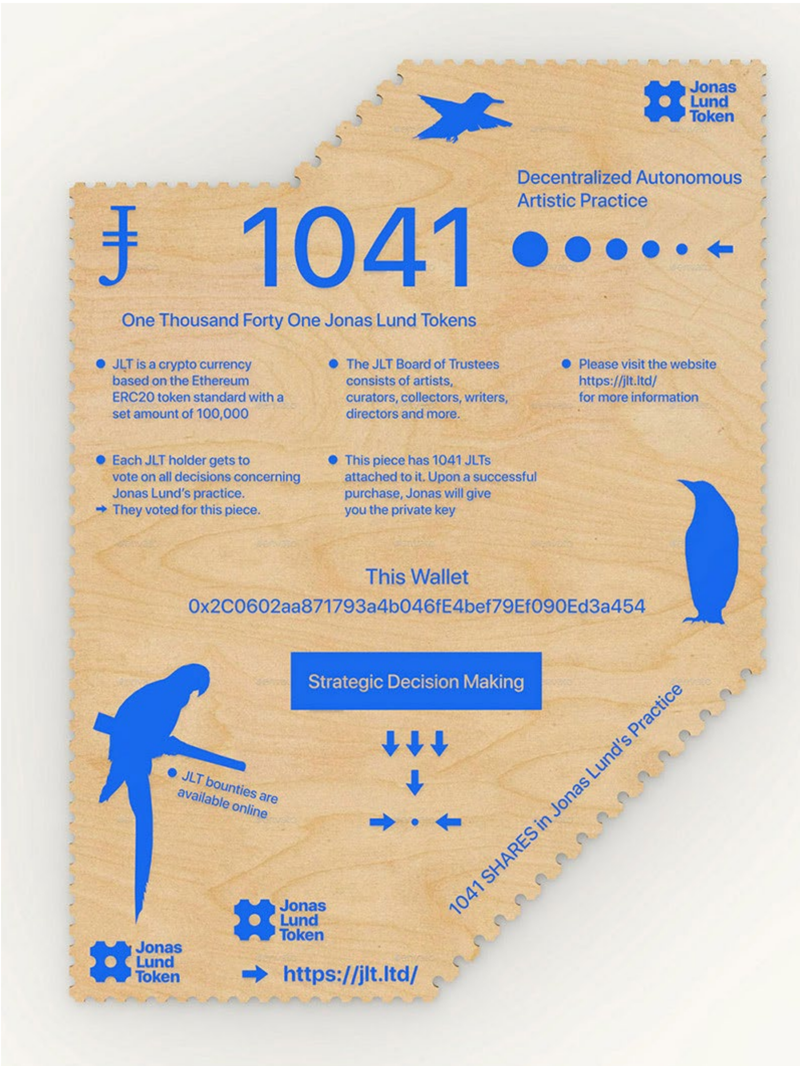
There's a long tradition of connecting finance with occultism, the latest of which possibly being the self-proclaimed research laboratory Unbewitch Finance created in 2017 that organizes workshops, games and rituals such as full moon meetings in the Brussels World Trade Center and even set up a satirical crash brirthday party on 15 September 2018 in front of the Brussels stock exchange, concurrently with the former Lehman Brothers bankers' parties scheduled in the main financial capitals the same day.

Whether or not performed, Goldin + Senneby's magic trick wouldn't have been the first artistic intervention into the financial markets. We've already mentioned Sarah Meyohas and James Gubb manipulating stocks for aesthetic purposes ; RYBN, to come back to them, has been running a trading bot on the markets since 2011. *ADM 8* (http://www.rybn.org/ANTI/ADM8/) is actually a trading algorithm not conceived for profit but oriented towards its own bankruptcy, as it's programmed to stop acting when it runs out of money. Beginning its activity with a fund of US$10,000, it's been investing and speculating on its own for more than seven years, with more than 2,000 transactions exectued – roughly one per day. This infiltrated bot that went online a year after the first flash crash embodies a critique of credit brokering as it can only trade if funded, and a critique of the opacity of the ultra-specialised algorithms that operate on the markets with its open-source code.

Practical Approaches to Capital

If finance and money can be described as irrational systems of collective fictions, at both a general and a factual level as we've seen with the storytelling practices at play in the 'pump and dump' schemes or in 'stock bashing', then it is possible to counter these with other narratives. This has been Cassie Thornton's strategy since her studies at the California College of Arts, an expensive private school. Ranging from conversations to hypnosis and from the words and visualisations emanating from these latter to sculptures and architectural installations, she works at decentering people's conception of their debt as a personal matter in favour of a more political and collective perception of it: 'When it works', she explains, 'people can be liberated from the shame of "failing" as an economic subject, and replace that with angst against the system that is causing them, and most everyone else, to fail.'[27]

In 2010, student debt exceeded credit-card debt in the US. In 2011, it surpassed auto loans. In 2013, it passed US$1 trillion. In the wake of the students revolts, countercultural movements and social uprisings of the 1960s, a large move to privatise the costs of higher education was made under the impulse of the banker David Rockefeller collaborating with the Nixon administration in order to tackle the spreading of leftist views on and from campuses and to 'turn higher education into a jobs-training program'.[28] For *Give Me Cred* (2013), Cassie Thornton put up an alternative credit-rating agency to produce auxiliary credit reports with the aim of challenging those opaque scores attributed to people simply on the basis of numbers. She gathered all the information those credit reports were leaving aside, such as the payment of an emergency bill that could suddenly lower someone's score, by meeting people who would volunteer their stories and then providing them an official-looking document that summarised it all. And she says this strategy was successful for many people who were struggling to find an apartment in San Francisco – where she was based at the time – when the tech workers invaded the city. She believes that probably more than the form she completed about those persons, what worked was that their conversation empowered them and made them look more confident when they met potential landlords. Here again, the value of the artwork lies not in the object itself but in the network, even more so if we take the word value in the sense of an intrinsic quality.



Jonas Lund, JLT 1041, 2018. Painted wood.

Many artists, among whom the above-mentioned Jonas Lund (with his Jonas Lund Token (https://jlt.ltd/), Lund has opened his artistic capital to shareholders giving them agency over his practice) and Sarah Meyohas, our dubious *Bloomberg* opinion columnist's favourite artist for her pragmatism[29] (with her *BitchCoin* which 'allows art collectors to invest directly in Sarah Meyohas as a value producer rather than investing in the artwork itself', BitchCoin giving Sarah Meyohas 'a stake in the supply, demand, and price of her own work'), have played with the idea of cryptocurrency, building their own, although most of these projects don't aim for real effectiveness beyond adding to the speculation on their creators' careers. Those coins and tokens are viewed as pure artworks, that is to say production time (although crowdsourced) and material (those tokens are backed by physical objects) turned into objects (also in the sense of an object of thought) the value of which is subjective. In the case of Lund and Meyohas, a blockchain-based form of patronage. There, money is the medium. But what if it were the medium and the end?

Today, most currencies are fiduciary, which means that their face value is in disproportion to their material value, just as for artworks. The trust in the value of these currencies is guaranteed by institutions such as states and central banks, whereas the trust in the value of the artworks is guaranteed by what Hito Steyerl called the network, or in other words, the art world, made of 'institutions' such as museums, galleries and auction houses. Fiat money represents some 10 per cent of global financial transactions while bank money accounts for 90 per cent. Cryptocurrencies are still a minority in the financial landscape. Some would argue that Bitcoin is not even money but a growing set of purely speculative assets. Engaging in a serious critique[30] of Bitcoin as money, Dmytri Kleiner notes that neither modern economics nor libertarian capitalist theories of money can account for Bitcoin, but that Marxist theories of money can. For him, 'the face value of Bitcoin represents a certain worth in terms of the labour time embedded in the computation power used to mine it.' The labour theory of value, mainly advocated by Adam Smith, David Ricardo and Karl Marx, recommended that the value of a commodity should be measured objectively by the average number of labour hours necessary to produce it. But Bitcoin has not been programmed as such. 'As more computational power, representing ever greater amounts of labour, is employed in Bitcoin mining, the number of Bitcoins produced does not go up, instead, the value of each Bitcoin goes up' explains Kleiner, for whom Bitcoin 'is irrational by design' as 'there is no fixed ratio between work and coin'. So, to keep up with the original idea of Bitcoin, which was that of a decentralized money enabling anonymous transfers of value between peers in a network, Kleiner, together with Baruch Gottlieb, his partner in the Telekommunisten art group, is creating *The Haket* – an artistic, functional, non-speculative, rational cryptocurrency based on the Marxist theory of money, a cryptocurrency with a stable value indexed to a consistent work/coin ratio – work meaning here the amount of computation put into the production of the coins. Unlike non-collateralized stablecoins projects roughly based on the Quantity Theory of Money, which evaluates changes in the demand and adjusts the supply of the coin with its price, here is an asset – and an artwork – that prices itself from its own materiality (which sounds reasonable in terms of stability, considering the rather low volatility of the electricity prices for now). Furthermore, drawing on Gottlieb's long-time reflection on the materiality of digital technology, *The Haket* is designed to be mined with obsolete hardware, endowing the project with a hint of techno-criticism ready to confront the usual propaganda of innovation.

The liquefying of art into a market substance, into a purely subjective and speculative value disconnected from its material reality, incarnated or resisted by the artworks discussed here – to the point of artistic interventions into the financial markets, to the point of becoming money themselves – might conversely demonstrate that art will always be a little more than just a financial instrument. Even when it tries to mimic its appearance and operations.

ABOUT THE AUTHOR

Aude Launay is an independent curator and writer trained as a philosopher. A significant part of her writings and exhibitions deals with the influence of the Internet (as a hyperobject more than as a technical tool) and advanced technologies on contemporary art and society. For the past three years, her research focus has been on crowdsourced and distributed decision-making through algorithmic and blockchain-based processes in art. More generally, she is interested in art that interferes with the power mechanisms underpinning governance structures.

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Notes

1. Steyerl, H (October 2016, If You Don't Have Bread, Eat Art!, E-Flux Journal #76. Available at: https://www.e-flux.com/journal/76/69732/if-you-don-t-have-bread-eat-art-contemporary-art-and-derivative-fascisms/ (Retrieved 20 January 2019)
2. The first example of which may be the painter Georges Seurat who, when asked the price of a picture painted 12 years after the French edition of the volume 1 of Capital, 'wrote that he was very much embarrassed in fixing the price; that he reckoned it as one year's work at seven francs a day, but that he would be willing to reduce it if he liked the personality of the buyer. Thus Seurat rationalized even his own labor as a sum of units of work, in contrast to his contemporaries, who identified every stroke with the experience of a lifetime or the priceless effect of inspired genius.' Shapiro, Meyer (1935) 'Seurat and La Grande Jatte', The Columbia Review, XVII (1):16.

   'For Seurat, whose circle was known for its leftist political views, it partakes of a genuine democratic identifiation with (manual) workers: he refused the idea of a difference between the production of art and that of any other object, considering his artwork to be like any other commodity, whose exchange value is determined, according to Marx (in his revision of Ricardo and Smith), by the quantity of "social" labor that has been expended in its production and is "crystallized" in it. In other words, Seurat chose to ignore the perturbations of the exchange value system engendered by the fluctuations of supply and demand, which are notoriously extreme in the market of luxury goods—and particularly in the art market." Bois, Yve-Alain (2013) 'A Pedestal is a Pedestal is a Pedestal', in Cheyney Thompson, metric, pedestal, cabengo, landlord, récit, Cambridge, MA: MIT List Visual Arts Center; London: Koenig Books, p. 6.
3. Boltanski, Luc and Esquerre, Arnaud (2017) *Enrichissement. Une critique de la marchandise.* Paris: Gallimard, p. 292.
4. See services provided by Geneva Free Ports and Warehouses limited. Website http://geneva-freeports.ch/en/
5. Sussman, A. (2017). New Estimate Cuts Art Market's Value by a Third. [online] Artsy. Available at: https://www.artsy.net/article/artsy-editorial-new-estimate-cuts-art-markets-value-third [Accessed 27 Feb. 2019].
6. ICIJ. (2013). Mega-Rich Use Tax Havens to Buy and Sell Masterpieces - ICIJ. [online] Available at: https://www.icij.org/investigations/offshore/mega-rich-use-tax-havens-buy-and-sell-masterpieces/ [Accessed 27 Feb. 2019].
7. Haiven, Max (2018) 'The Crypt of Art, the Decryption of Money, the Encrypted Common and the Problem with Cryptocurrencies', in Gloerich, Inte; Lovink, Geert and de Vries, Patricia (eds), *MoneyLab Reader 2: Overcoming the Hype*. Amsterdam: Institute of Network Cultures, p. 124.
8. Meyohas, S. (2015). Stock Performance 2015. [online] Sarah Meyohas Website. Available at: https://www.sarahmeyohas.com/stock-performance-gallery/ [Accessed 27 Feb. 2019].
9. Cameron, J. (2017). Stock market artist fined R100k for giving Gupta the middle finger in masterful Oakbay trades. [online] BizNews.com. Available at: https://www.biznews.com/sa-investing/2017/11/02/gupta-middle-finger-oakbay-trades [Accessed 27 Feb. 2019].
10. I would happily have written 'the links between art and money', if the notion of art as we understand it now, that is to say freed from political and religious instrumentalisation (although this obviously persists, which would be the subject of another essay), were not dramatically different from how it was understood until at least the late Middle Ages, let alone Modern times. It seems easier to talk about the artists, even though they were long still considered as mere craftsmen in the service of art, and thus, of political and religious powers. In ancient Greece and Roman times, the works were more indicative of the fervour of the patron than of that of the artist, and it was the patrons who controlled the production and left their names on the works.
11. Renaissance being the golden age of patronage with artists passing from court to court in a competitive Europe of monarchies and city-states.
12. Bloomberg.com. (2005). The unravelling of Rhodia. [online] Available at: https://www.bloomberg.com/news/articles/2005-05-08/the-unraveling-of-rhodia [Accessed 27 Feb. 2019].
13. Malik, N. (2018). The Problems With Using Artificial Intelligence And Facial Recognition In Policing. [online] Forbes.com. Available at: https://www.forbes.com/sites/nikitamalik/2018/10/29/the-problems-with-using-artificial-intelligence-and-facial-recognition-in-policing/#19091fe54f83 [Accessed 27 Feb. 2019].
14. Pasquinelli, Matteo (2016) 'The Spike: On the Growth and Form of Pattern Police', in *Nervous Systems*. Leipzig: Spector Books, p. 281.

15. Richard, F. (2001). Toward a Diagram of Mark Lombardi. [online] Whale.to. Available at: http://www.whale.to/c/mark_lombard3.html [Accessed 27 Feb. 2019].

16. See http://interactive.fusion.net/dirty-little-secrets/index.html

17. 'Mr. Lombardi's interest in presenting pure information qualified him as a Conceptual artist, but in many ways he was an investigative reporter after the fact' wrote Roberta Smith in Lombardi's obituary in *The New York Times.* The circumstances of the artist's death remain somewhat unclear for some, especially for his close friends and family.

18. RYBN was presented there not by a gallery but at the booth of the House of Electronic Arts Basel, an art centre financed by a mix of public and private funding.

19. Lechner, M. (2014). «Créer une menace contre un système puissant». [online] Libération.fr. Available at: https://next.liberation.fr/arts/2014/09/01/creer-une-menace-contre-un-systeme-puissant_1091591 [Accessed 27 Feb. 2019].

20. See news clip on https://www.youtube.com/watch?v=pak2oBZjiyY [Accessed 27 Feb. 2019]

21. Grant, D. (2014). The Art of Art Lawsuits. [online] Hyperallergic. Available at: https://hyperallergic.com/107150/the-art-of-art-lawsuits/ [Accessed 27 Feb. 2019].

22. Insurance Journal. (2015). Crystal, AIG Offer Conceptual Art Insurance for Private Clients. [online] Available at: https://www.insurancejournal.com/news/national/2015/03/31/362698.htm [Accessed 27 Feb. 2019].

23. See Deneault, Alain (2010) *Offshore, paradis fiscaux et souveraineté criminelle.* Paris: La Fabrique éditions, p. 84.

24. The geographer Angus Cameron acting as the emissary of Goldin+Senneby for their exhibition 'Headless' at The Power Plant, Toronto, 13 December 2012. https://www.youtube.com/watch?v=tOGttCSUecM

25. Rosendahl, L. (2019). I'll Be Your Mirror. [online] Nomegallery.com. Available at: http://nomegallery.com/chapter/ill-be-your-mirror-by-lisa-rosendahl/?exh=1794&order=0 [Accessed 27 Feb. 2019].

26. Levine, M. (2016). Magic Tricks and Vanishing Directors. [online] Bloomberg.com. Available at: https://www.bloomberg.com/opinion/articles/2016-08-25/magic-tricks-and-vanishing-directors [Accessed 27 Feb. 2019].

27. Salvaggio, E. (2018). Transcending Debt: Meet the Feminist Economics Department. [online] nextrends. Available at: https://nextrends.swissnexsanfrancisco.org/transcending-debt-meet-the-feminist-economics-department/ [Accessed 27 Feb. 2019].

28. If education fees have increased over 500 per cent in the last 30 years, it is to turn every student into a good and full-time participant in the labour market, explains artist Martha Rosler in this enlightening essay: http://artanddebt.org/school-debt-bohemia-on-the-disciplining-of-artists/

29. 'She's a Wharton graduate who paints stock-price charts and sells them to hedge-fund managers. It is commerce all the way through.It turns out that the performative rejection of capitalism is not essential to artistic authenticity.' https://www.bloomberg.com/opinion/articles/2018-12-29/president-trump-had-a-terrible-week-opinion

30. Kleiner, D. (2018). The Face Value of Bitcoin: Proof of Work and the Labour Theory of Value | P2P Foundation. [online] P2P Foundation. Available at: https://blog.p2pfoundation.net/face-value-bitcoin-proof-work-labour-theory-value/2018/02/01 [Accessed 27 Feb. 2019].

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STATE OF POWER 2019

Finance, Fossil Fuels, and Climate Change

Networks of Power in Canada

Mark Hudson and Katelyn Friesen

Introduction

In our home country of Canada, the disparity between climate rhetoric and practice was recently pushed into the spotlight when Prime Minister Justin Trudeau – an avowed climate champion – purchased on behalf of Canada an unfinished bitumen pipeline from Houston-based corporation Kinder-Morgan. The construction and operation of this pipeline will contribute to a planned increase in oil and gas extraction that will blow Canada's already-weak Paris commitments out of the water.[1]

This has led to some head-scratching in Canada. Why has Trudeau expended so much political capital and CAN$4.5 billion of national revenue on expanding a pipeline – particularly one that actually has a pretty shaky business case?[2] If his government is vocally committed[3] to action on climate change, why is it hell-bent on digging up and sending yet more of our high-carbon, oil-sands bitumen out to be burnt? This line of questioning has turned the gaze of many inquiring minds toward examining the power of the fossil-fuel industry in Canada's national politics.[4] Is the industry on its own powerful enough to drive federal policy, even when that policy clashes with highly-publicized commitments on climate change?

In order to understand power, we have to look not just to the fields of extraction and their ruined landscapes,[5] nor only at the immediate effects on water, air, wildlife, and the nearby communities that rely on all three. We also have to look up and down the commodity chain. Attention is currently fixed downstream, at the politics and power manifesting in decisions about who and what is expendable in order to get the bitumen to market. Ultimately, though, the flow of bitumen relies on the flow of finance. If we're thinking about the power of fossil-fuel producers, we have to contemplate how that interacts with the power of finance.

Canadians, of course, are not alone in pondering their governments' dissociative rhetoric, policy, and practice. Governments around the world (with the obvious exception in the White House) proclaim their commitment to fighting climate change, while continuing to subsidize fossil-fuel production to the tune of $445 billion per year.[6] Thus, the dissonance between proclamations and practice on climate is a global phenomenon. If you read the newspapers and blogs on climate politics often enough, and for a long enough period, this jarring dissonance eventually resolves into a discomforting pattern.

Outright denial, once the favoured elite option, and still held in reserve as a fallback position at the centre of global capitalism, has given way to a new elite consensus. 'Climate change is happening; "humans" are the main cause; it's serious; it will have major costs.' From there, however, the dissonance begins. Because in practice, while NASA will spend millions carefully tracking rates of ice loss in Antarctica,[7] exclaiming over its 'surprising' acceleration into 2018, and while insurers tot up the mounting losses to property and life arising from flood and fire, these meticulously catalogued mileposts on the road to catastrophe seem unable to generate a change of course. We watch carefully, we acknowledge, we carry on as usual.

It's not as passive as it sounds. While there is a well-documented[8] form of everyday, socially generated denial in which most people in the industrialized world engage – turning to our screens as a distraction, and jumping in the car to pick up the groceries – there is also a less documented process through which power is brought to bear in reinforcing business as usual. Socio-ecological systems have to be actively reproduced, and central to that is political work. Barring those in the immediate orbit of the Trump White House (not an unimportant exception, it has to be acknowledged), most of the people hanging around the ski resort of Davos every January for the World Economic Forum will express their deep concern about climate change, and then go on to do whatever is possible to prevent a meaningful collective response[9] to the civilizational crisis it presents. They will dig up the fossil fuels, haul them, and burn them. They will build the infrastructure that locks us into burning fossil fuels for the next half-century. They will thwart tax measures that could help fund a transition to renewable energy. They will encourage urban sprawl, expand cattle production, grow palm oil, build server farms, and so on. And they will finance all of the above, keeping capital flowing into projects that exacerbate what they themselves describe as the 'greatest threat to civilization'.[10]

There is, of course, a very different universe of climate politics, where people gather, build blockades, lie down in front of machinery, glue themselves to buildings, get attacked by dogs, and come back. This is likely to the be only political force capable of preventing catastrophic climate change. These movements, like the emerging Extinction Rebellion, are rooted in a much more realistic assessment of what climate science means for policy. Their effectiveness will ultimately lie in their capacity to identify who or what is responsible for perpetuating fossil-fuel extraction, which requires focusing not just on fossil-fuel corporations, but on the whole commodity chain.

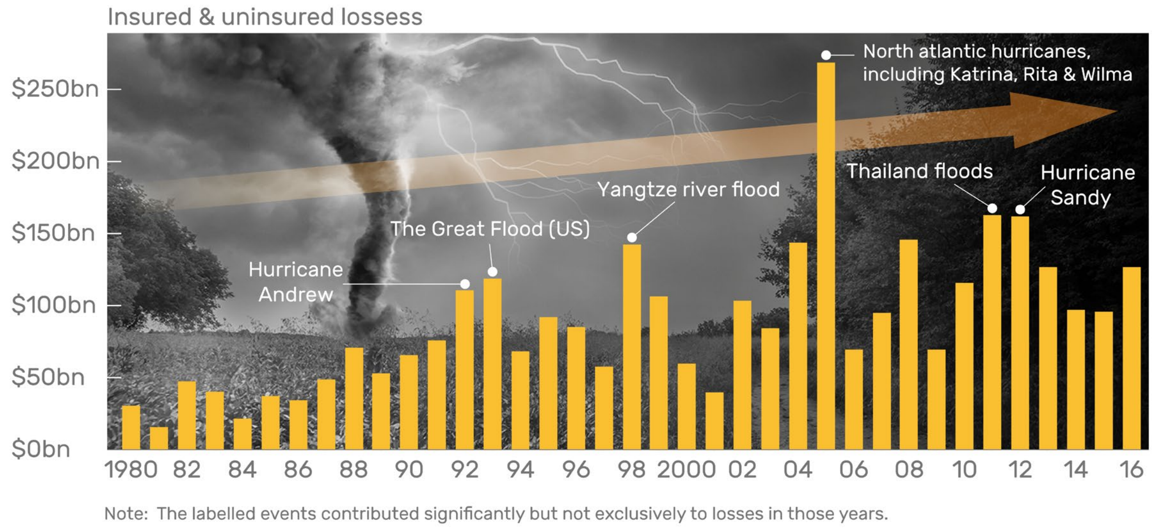
This way of approaching the question – looking up and down the commodity chain – leads us to think less in terms of the power of a specific industry, and more in terms of class power. Activists and academics alike – particularly those of us with an anti-capitalist orientation – sometimes tend to think of capital as a united force. However, that's not always the case, and sometimes we would be wise to think of capital in the way that Adam Smith understood it, as a social system characterized by both competition and cooperation. Nicos Poulantzas[11] was also onto this, although he framed it in the terms bequeathed by the Italian Marxist Antonio Gramsci, relying on the concept of hegemony. Hegemony, he argued, was just as much a problem for those within the upper echelons of capitalism as it was for the system as a whole. Capitalists don't always see eye-to-eye, so in order to avoid a fragmentation of capital into a set of squabbling factions, a hegemonic 'power bloc' was needed to unify and express a class interest. For some time, people have seen finance as fulfilling this hegemonic role, since the nature of its business is materially tied to profitability across the system as a whole, rather than within a specific segment of it.[12] As political pressures mount from the other side of the class divide to take action on climate change in order to stave off an ecological and humanitarian crisis, Poulantzas' ideas suggest that in order to keep the state from bowing to these pressures in ways that threaten capital, and to maintain its control over state action, capital must be as unified as possible.

Climate change, though, presents capital with a problem of 'interest aggregation'[13] – a process usually thought to plague working-class organization – in that climate policy is likely to force capital to weigh its different interests one against another, and the development of a unified, class-wide policy preference is likely to create winners and losers.

So, the different relationships between capital and climate change suggest a problem for the formation of a capitalist class-based, hegemonic response to climate change, which means a potential opportunity for social forces arrayed to prevent it. The more fragmented is capital, the higher the chance that oppositional social movements will be able to influence government. Perceptions and realities of risk and opportunity for the accumulation of value vary highly across industry sectors. We can guess how fossil-fuel corporations would like to respond to climate change. Their business plans certainly spell it out[14] in no uncertain terms, even as they proclaim their support for the Paris Agreements. Their intention is to continue producing on their existing fields, and exploring for more, even as the reserves they are currently producing will shoot us well past the 1.5 and 2 degree marks.[15] They want no policy to impinge upon the profitability of tapping into fossil reserves.

However, the interests of financial firms are more ambiguous, and in fact might be contradictory over a sufficient time horizon. Exposure to risks such as potential expropriation, stranded assets, sudden and catastrophic property losses due to extreme weather, liability, or loss of brand value resulting from negative public image, together with specific loan portfolios and asset holdings, create a complex mix of incentives and interests for financial firms. Figure 1 comes from the Bank of England, and attempts to highlight the increasing dangers to financial stability posed by extreme weather.[16]

Figure 1: Global economic losses from extreme weather events have increased



Source: https://edu.bankofengland.co.uk/knowledgebank/climate-change-what-are-the-risks-to-financial-stability/

Financial capital – banks and insurers in particular – has been more vocal in supporting greenhouse gas (GHG) emission reductions, and some institutional investors have criticized governments'[17] failure to take climate change seriously enough. Insurers occasionally proclaim how much more they are paying out in property and life claims resulting from extreme weather, and prominent financial institutions, like the Financial Stability Board or the Bank of England have been aggressively pushing financial firms to disclose their climate-based risks to investors. Their prospects of profit are less exclusively tied to continued fossil-fuel production, they have other options available for profitable investment, and they face potentially severe risks from climate change.

Some have looked at this picture and suggested that finance, a politically heavy-hitting business sector, has a 'material interest in decarbonisation',[18] and is thus a likely champion of aggressive climate action. However, finance also creates and remains embedded in a complex set of relations with the fossil-fuel industry, which muddies the picture considerably. While their interests may appear to diverge from those of the oil, gas, and coal companies, a closer look at how companies are linked suggests that in the absence of serious pressure, finance is an unlikely candidate to take the lead on building a decarbonized economy.

Scholars in the tradition of C. Wright Mills[19] and John Porter[20] reveal the ways through which capital attempts to overcome ambiguous or conflicting interests, to try to build or impose class-wide unity. These strategies rise on the foundations of identifiable networks – structures that enable capitalists to share perspectives, to develop a class consciousness, and to talk through differences. These might be structural – like shared ownership; they might involve institutions explicitly for this purpose – like trade associations and policy groups; but they might also be social – golf clubs, churches, arts and cultural institutions. The degree to which finance capital is connected to fossil-fuel capital through these kinds of structures has implications for the political interventions and the orientation of financial firms' efforts on climate change.

Two of the more obvious ways that firms might come to share perspectives on problems and policy are through director interlocks, and through both holdings and lending. In Canada, a disproportionate amount of political power is being brought to bear to defend and advance the interests of fossil-fuel companies in the face of rising public awareness of climate change. Why this is so becomes clearer once we see that financial corporations are deeply embedded in networks of ownership, credit, and board interlocks with the fossil-fuel sector.

Finance's Fossil-fuel Holdings and Lending

Lending

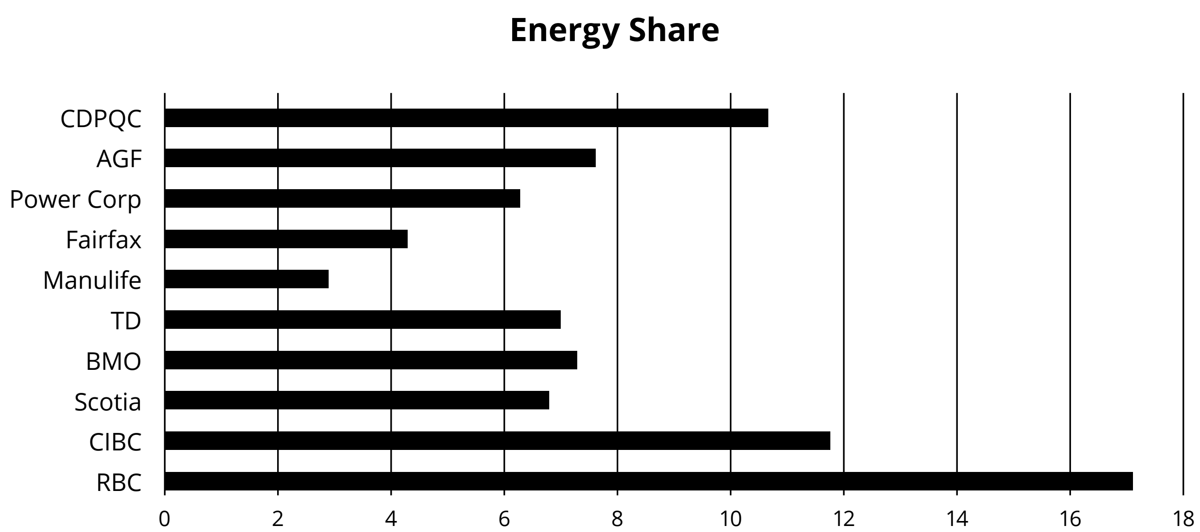
Data on bank lending is difficult (that is to say, expensive) to get. Thankfully, the Rainforest Action Network (RAN) has been putting together annual reports[21] on global lending to 'extreme' oil projects, using a tactic of 'naming and shaming' that sheds light on which corporations are financing climate catastrophe. Bank lending shifts the landscape of risk for financials by creating a shared interest in the perpetuation of fossil-fuel extraction and transportation. Many of the projects they finance are long term, which gives them an interest in continuing oil and gas production well into the future – particularly in the tar sands, where most of the capital costs are sunk. Once the facilities are built, they cost relatively little to operate, so the incentive is to keep producing, even when oil prices are low.

Canada's banking system is dominated by five large chartered banks: The Royal Bank of Canada (RBC), Canadian Imperial Bank of Commerce (CIBC), Scotiabank, Toronto Dominion (TD) and the Bank of Montreal (BMO). All five are among the world's top 20 financers of RAN's extreme oil and gas, with RBC ranking second in this odious league table. RBC alone provided over $26 billion from 2015 to 2017 to finance extreme oil and gas extraction, up massively from the year before, in significant part to finance the purchase by Canadian firms of tar sands reserves being offloaded by foreign multinationals. The five banks together provided $71 billion during this period. Most of this is for domestic oil production in the tar sands, for which the big five's lending makes up a whopping 62% of the total. It is also noteworthy that this lending spiked hugely in 2017 compared to the previous couple of years, to $33.44 billion in 2017 from $15.57 billion in 2016.[22] This is surely driven largely by the rebounding price of oil, but it also suggests that Canadian banks feel little fear of any political action that would result in the necessary transition away from fossil fuels. As a proportion on their total loan books, $71 billion over the past three years is not overwhelming, but it is significant. The biggest lender, RBC, for example, has had a net increase in its total outstanding loan portfolio of $107.3 billion. Its climate-change-inducing finance is just under a quarter of this value. The $71 billion total exceeds, by a considerable amount, all new capital expenditure in the oil sands for this three-year period, which the National Energy Board reported at $52.6 billion.[23] While the finance for fossil-fuel extraction can come from retained earnings within oil companies themselves, or from share offerings, or from borrowing, the oil giants are increasingly dependent on bank finance. Since the price of oil collapsed in 2014, and given its slow increase subsequently, in-house financing has become more scarce, and as international financial institutions like HSBC pull out[24] of new projects, Canadian banks will become an even more important source of funds.

Holdings

Financial corporations (including banks and asset management firms) are also linked to fossil-fuel corporations through their holdings. In Canada, this relationship is deep and wide. Major Canadian financial firms, far from being concerned exclusively with the 'dematerialized' realm of finance, are heavily invested in extraction and transportation of oil (and other natural resources). Most of their portfolios are dominated by inter-industry holdings – ownership stakes in other financial firms. At the top end, for example, just over half of RBC's and TD's holdings are in the financial sector. Outside banking, the financial holdings of firms like Fairfax Financial and Power Corporation of Canada make up around 40% of their portfolio. However, while the 'carbon intensity' of financial firms' holdings varies, energy (composed almost entirely of oil and gas extraction and transportation) is also a very substantial element, meaning that they have an active interest in, and an upbeat analysis of, the future profitability of fossil-fuel firms. Figure 2 shows each financial firms' share of energy holdings, as a percentage of the total.

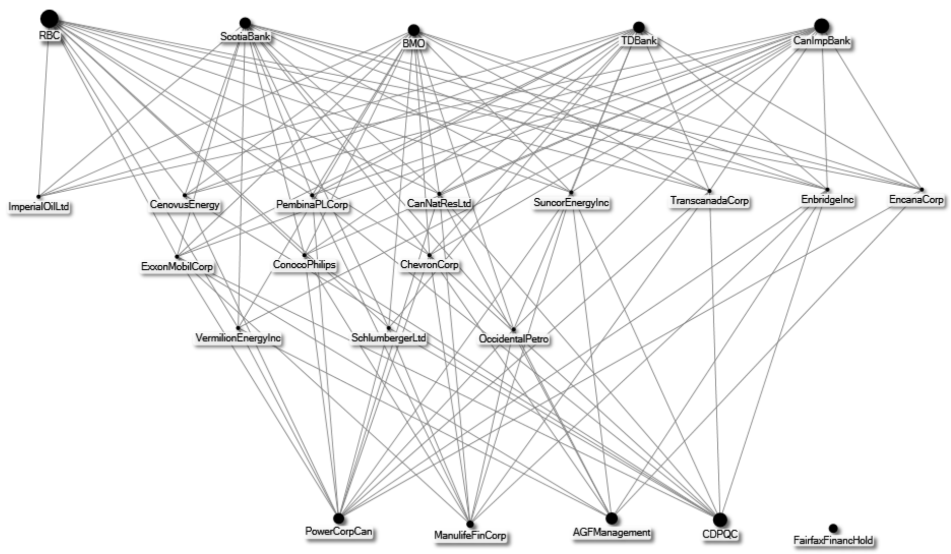
Figure 2: Share of energy holdings, select major Canadian financials (% of total)



Source: Bloomberg Terminal

Ownership of the fossil-fuel industry goes beyond Canadian borders. Of the top 10 owners of the fossil-fuel industry in Canada (measured by their share of total Canadian fossil-fuel revenues), only half are Canadian. [25] The biggest gun is US-based ExxonMobil, which controls about 6.6% of total revenues. However, in addressing the question of power within Canadian national politics, we need to keep an eye on the extent to which the interests of Canadian corporations in finance and fossil fuels converge. Figure 3 shows which fossil-fuel companies are held by which Canadian financials. Each line in the figure represents a financial firms' holding of a fossil-fuel firm. The top row of nodes shows the big five banks. The bottom shows Canada's largest non-bank financial corporations. The middle three ranks are all fossil-fuel corporations – the top rank shows the 'Big 8' companies most active in Canadian tar sands production and transportation: Imperial Oil, Cenovus Energy, Canadian Natural Resources Limited, Suncor, and Encana from the production side, and TransCanada, Enbridge, and Pembina from the transportation side. CIBC, RBC, Scotiabank, BMO, and TD Bank (every major Canadian chartered bank) have holdings in the Big 8, and four of the five big banks' top three energy holdings are Canadian firms active in the tar sands (TD Bank is the exception, which holds significant shares in BP and ExxonMobil). Pipeline firms Enbridge and TransCanada, and extractive corporations Suncor and Canadian Natural Resource Limited, are the most heavily owned by financials as a proportion of the financials' portfolios. The middle row shows the most broadly owned foreign firms. The fourth rank shows the three miscellaneous fossil-fuel companies owned by a minimum of five financials. The nodes of the financials are scaled to their energy holdings as a percentage of their total portfolio. At the bottom are five of the largest, connected asset management firms. Fairfax does have holdings in the fossil-fuel industry, but they are distinct from the most tightly networked companies shown here. What Figure 3 suggests is that there is a broadly shared interest in buffering the fossil-fuel industry from policy that might detract from its profitability – particularly policies that respond meaningfully to the fact that much of Canada's fossil fuels will have to be left in the ground[26] in order to avoid climate disaster. While investment in the continuing operation of the tar sands varies, it is a significant share of holdings across the board (and very high for both CIBC and RBC, for which energy is the second biggest sector in their portfolios, after finance).

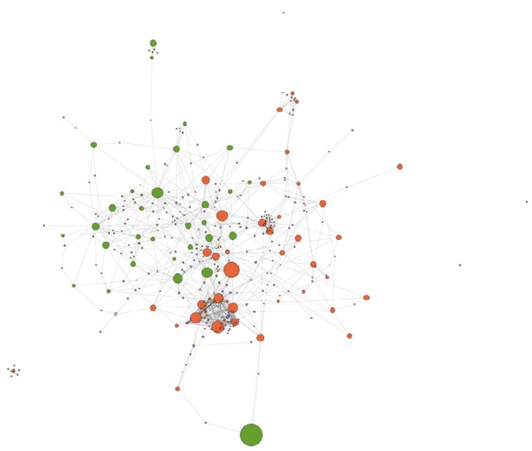
Figure 3: Holdings Network, Finance and Fossil Fuels Corporations in Canada, 2018.



Interlocks

Loans and holdings reveal a direct financial stake in the perpetuation of the fossil-fuel economy. Capitalists are also embedded in networks that are important for building unity because they facilitate information exchange, communication, and the development of shared discourses, understandings, and policy positions. One of these networks is composed of shared directorships. Corporate directors will sometimes sit on more than one corporate board, acting as link between the corporations. In discussions about policy, legislation, or regulation, for example, a director on a bank board who also sits on the board of a pipeline company can act as a conduit, transferring information, perspectives, or preferences from the pipeline industry to and from the banking industry. These conduits provide another foundation for the development of a class-wide perspective on key policy issues, including on climate and energy policy. To get a picture of what this network looks like, we start with a core group of oil and gas majors and pipeline companies with operations in Canada with revenues over $350 million in 2017, which is the revenue of the last-ranked firm on the FP500 (Canada's largest 500 corporations). This delineation of the network captures all of the 15 so-called 'carbon majors'[27] in Canada, which collectively accounted for 63.5% of total sector revenues in 2014.[28] To this, we added the finance and insurance majors headquartered in Canada with minimum revenues of $350 million, to form the core of the finance/fossil-fuel network of 88 corporations. We then collected the list of directors for each corporation, including their other current board affiliations. Our network thus grew from the core to include 'first order' neighbours – corporations, regardless of revenue, industry classification, or country of operation, tied to core companies via a shared director. This maps the network of ties between and within fossil-fuel and financial corporations. The total network comprises 1,551 corporations, connected by 2,102 shared directorships, and just 582 individual directors form these ties. Eliminating firms with only one link (so-called 'pendants', which don't serve to increase the overall connectivity of the network), we're left with a network of 362 corporations, connected through 915 shared directorships. Figure 4 gives an idea of the complexity and connectivity of the network. We have excluded the labels for the individual corporations to make the map more legible.

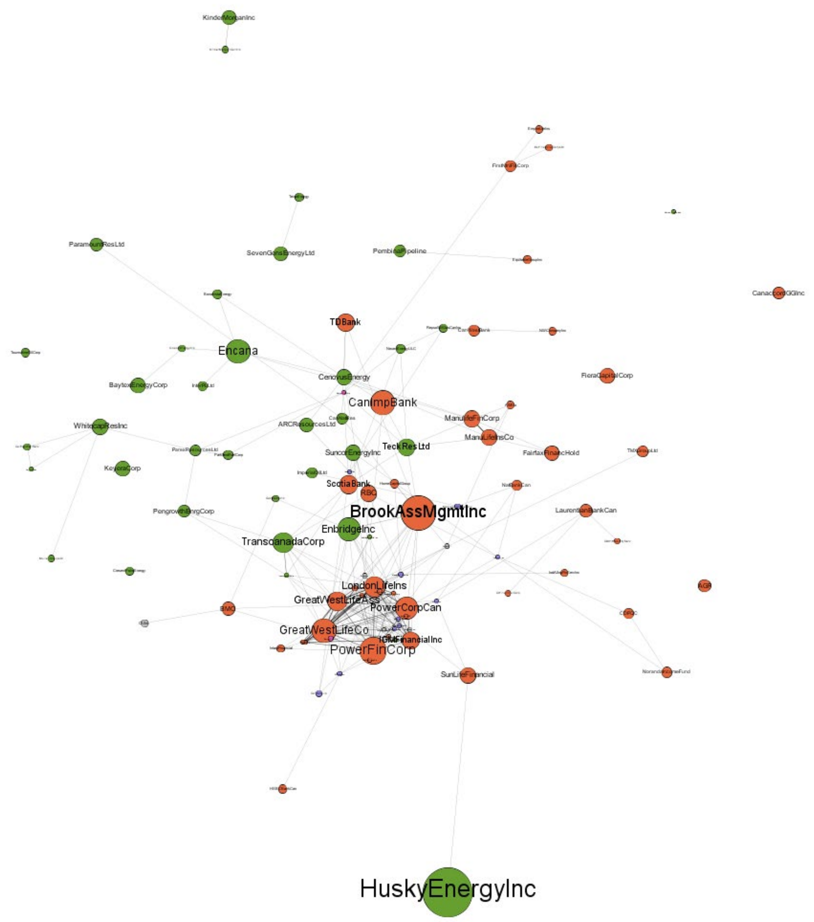
Figure 4: Fossil Fuel and Finance Capital, Director Interlocks of firms with two or more ties.



Financial firms are show in orange. Fossil-fuels firms appear in green. The size of each node is proportional to its number of ties in the total network. The algorithm used for the visualization clusters nodes according to how closely tied they are in the network. A fairly clear division is apparent, with firms from each sector clustering with their own. That is, the degree of connectivity within each industry is much greater than it is between the two industries. Here we include only the companies in the 'connected component' of the graph. There are a few smaller 'islands' (small clusters of companies not connected to the rest of the network), most centring on Quebec-located financial firms, or other regionally-based credit unions and insurance cooperatives. However, 98% of the firms in the network form a connected component. While Figure 4 confirms that corporate directors tend to stay within their 'home industry', finance and fossil-fuel capital in Canada are stitched together by a core group of very large and powerful companies.

In order to give a clearer picture of the who's who in our network, in Figure 5 we only include the most heavily connected companies with six or more ties. We lose some visible ties by doing so, and under-represent the reach of the core companies, but it visually clarifies the group that works to tie these two sectors together.

Figure 5: Fossil Fuel and Finance Capital Director Interlocks of firms with six or more ties



A few features are worth mentioning in the context of how power and influence flow through the network. First is the group of important 'border' or 'bridging' firms along the centre of the vertical axis dividing the two industries. The carbon majors in Figure 5 include Cenovus Energy, Teck Resources, Suncor, Encana Corporation, Enbridge Inc, and Transcanada Corporation. The finance majors include Great West Lifeco, Power Financial Corporation, Brookfield Asset Management, and Manulife Financial Corporation. The five major Canadian Banks are also present: Toronto-Dominion Bank (TD Bank); Canadian Imperial Bank of Commerce (CanImpBank/ CIBC); Bank of Nova Scotia (ScotiaBank); Royal Bank of Canada (RBC); and Bank of Montreal (BMO).

These firms act to channel perspectives and information between industries. This connected cluster of companies includes most of Canada's major financial corporations, and the vast majority of its carbon majors, each responsible for the bulk of revenues in each sector. These collectively form the muscle and blood of the Canadian fossil-fuel industry. They are closely connected through board interlocks, and provide the necessary focal point for the generation and diffusion of shared interests, understandings, and preferences on policy matters, including on climate and energy policy. In other words, they provide the foundation for the development of capitalist-class unity on Canadian climate policy.

Second, the very tight cluster of financial corporations towards the bottom is composed of firms owned by the Desmarais Family Residuary Trust. The family's straightforwardly named Power Corporation is a financial giant in Canada, and a significant shareholder in Total S.A., which was not long ago a major player in the tar sands. The Trust is a politically and economically well-connected family corporation with vast channels of influence. The corporate patriarch was Paul G. Desmarais, who died in 2013. He was tightly connected to the ruling Liberal Party of Canada, having been a key advisor to the former Prime Minister Pierre Trudeau (the father of the current Prime Minister). His daughter-in-law is former Liberal Prime Minister Jean Chrétien's daughter (via André Desmarais, who sits on many of the Trust's boards). Hélène Desmarais, wife of Paul Desmarais Jr., is President of the board of the influential and libertarian-conservative Montreal Economic Institute, a champion of hydrocarbon development[29] in the province of Quebec. Pierre Trudeau, along with former Conservative Prime Minister Brian Mulroney, both served on the Board of Power Corp, as does the former Canadian Ambassador to the US, Gary Doer, whose primary job was to sell the Keystone XL expansion to state governors and members of Congress. Doer was a terrier in his efforts to shill for TransCanada's Keystone expansion, expressing brash confidence in 2012 ("I will bet a six-pack that it is going to happen")[30], doubling down on empty[31] promises that the Canadian government was 'committed to further action including regulations for our oil and natural gas sectors',[32] and casting aspersions[33] on the Environmental Protection Agency's assessment of the proposed pipeline.

Finance is often understood as a conflicted industry in the context of climate change, and thus as a potential force for positive change. Financial firms face risks arising from climate policy large enough to threaten 'severe financial shocks and sudden losses in asset values'.[34] As such, it has recently been subject to a discourse of climate-based 'material risks' and the need for disclosure of such risks.[35] However, our research shows that in Canada, the financial industry is tightly bound to the fortunes of the oil and gas industry, which is probably true elsewhere. As long as such bonds hold, we can expect that their considerable political power will be brought to bear, where and when necessary, in defence of the catastrophe-inducing fossil-fuel economy,[36] and in opposition to ideas of just transition.

Risk Management: Openings and Hazards for Climate Justice

To the extent that finance is responding to climate change in their corporate practices, it appears to be less about mitigation, and more about adapting to ensure continued profitability through processes of 'de-risking'.[37] When it comes to climate change, capital's definition of 'interest' has been developed through the lens of risk.[38] Risk can be regulatory (e.g. government might require emissions reductions consistent with the Paris Agreement), geophysical (extreme weather or other changes to the climate system will actually cost money), or reputational (corporations might suffer damage to their brand value or other revenue streams as a result of people holding them to account for facilitating the end of civilization as we know it). The emerging response of capital to climate change has been to translate its often brutal, qualitative dimensions into streams of probability and cost and then to develop minimizing strategies through such comfortable corporate means as public relations, lobbying, insurance, supply chain management, and portfolio management. The fact that climate change enters into the ledgers of capital does, however, open possibilities for activism. As evidenced by organizations like Market Forces[39] and the Unfriend Coal[40] movement in Australia, by the leverage opened up by industry-insider institutions like the Task Force on Climate-Related Financial Disclosures which advocate for greater transparency on climate-related risk, and by bank-targeted divestment movements[41] spreading across countries, activism can change the landscape of risk faced by financial firms. Most banks in Canada, for example, derive significant revenues from residential loans, making them vulnerable to popular divestment movements. As Naomi Klein laid out in *No Logo*, risks to brand value are taken seriously. This provides an opening to pry fossil fuel and finance capital apart. Fossil-fuel companies are less likely targets, because their entire business model and corporate structure is wedded to digging up oil, coal, and natural gas. Finance is more precipitously positioned. Its calculations of risk could tip with sufficient citizen-led pressure. Indeed, we see some kinds of industry responsiveness already: internationally, some banks are pulling out of fossil-fuel investments and lending under social pressure. Financial firms and consultancies are increasingly busy developing tools and algorithms that take as input human and ecological disasters like flooding, fires, drought, hurricanes and typhoons, and that produce as output indices of potential lost profit. They are also developing tools to minimize and spread this risk.

However, there is a broader danger here in engaging with calculations of risk that brings us back to the deep power of the financial industry. Risk is fundamentally a quantitative concept expressed under capitalism almost exclusively in terms of price. This framing of climate change is working its way more deeply into public discourse, political processes, and activist strategies. But it is fundamentally the language of capital. Prices are the only thing that can make climate change visible and actionable to capital. But this framing creates huge blind spots. Just to take one example, floods of the same magnitude in Houston and in Bangladesh become, in the lens of risk management, drastically different. Although many more human lives are likely to be far more devastated in Bangladesh, the Houston event is a much greater financial risk because of the value of insured property and life, and the value of economic activity and wages foregone. It measures the implications of climate change in terms of corporate risk, financial stability, and GDP foregone. For most people, however – especially in the global South – climate change is likely to be lived through increasing misery, dislocation, disease, and death, which will never appear in any accounting books, in any form. It is only by resisting the total incursion of 'risk management' and other market-based languages of price into popular and political conversations that we will keep climate change in the longstanding registers of political protest. At stake in ceding ground to 'risk management' is our ability to talk about climate change in terms of moral responsibility for one another and for future generations, and in terms of justice that make everyone's (and even non-human nature's) wellbeing equal to everyone else's, and to reclaim the fate of our planet by democratic forces in which everyone's voice counts equally.

Finance swings a big bat, and leveraging its clout for the goal of decarbonization is a tempting prospect. Getting finance to stop providing funds for fossil-fuel projects would indeed go a long way towards keeping carbon in the ground. However, we can't rely only on the fact that banks might be invested in potentially stranded assets, or that insurers face rising costs as climate change begins to bite. The interests and perspectives of finance remain entwined with those of fossil-fuel corporations, and it will take significant action from activists to tilt their cost–benefit calculations on climate change. It will take a drastic increase in reputational and political risk to move finance away from the otherwise profitable fossil-fuel sector, in which they are highly embedded. In other words, the fragmentation of capital on this issue – crucial to our ability to push states into aggressive action – is not automatic. There is plenty of glue holding capital together. Fractures have to be created. This problem may be acute in Canada, but is likely to be true for many other centres of fossil-fuel production.

An even more widespread aspect of the power of finance its ability to get us all to speak its language. Increasingly, politicians and even activists talk about climate change as a risk management (meaning risk-optimization) problem. There is power there, and risk is currently a convincing-looking weapon, since the potential costs of tipping over 1.5 or 2 degrees are so severe. But risk is fundamentally about trade-offs, and those trade-offs are always framed from a certain perspective. Rational risk management from the corporate perspective includes the possibility of trading away a liveable planet against (yet more) profit accruing to a tiny, wealthy minority.

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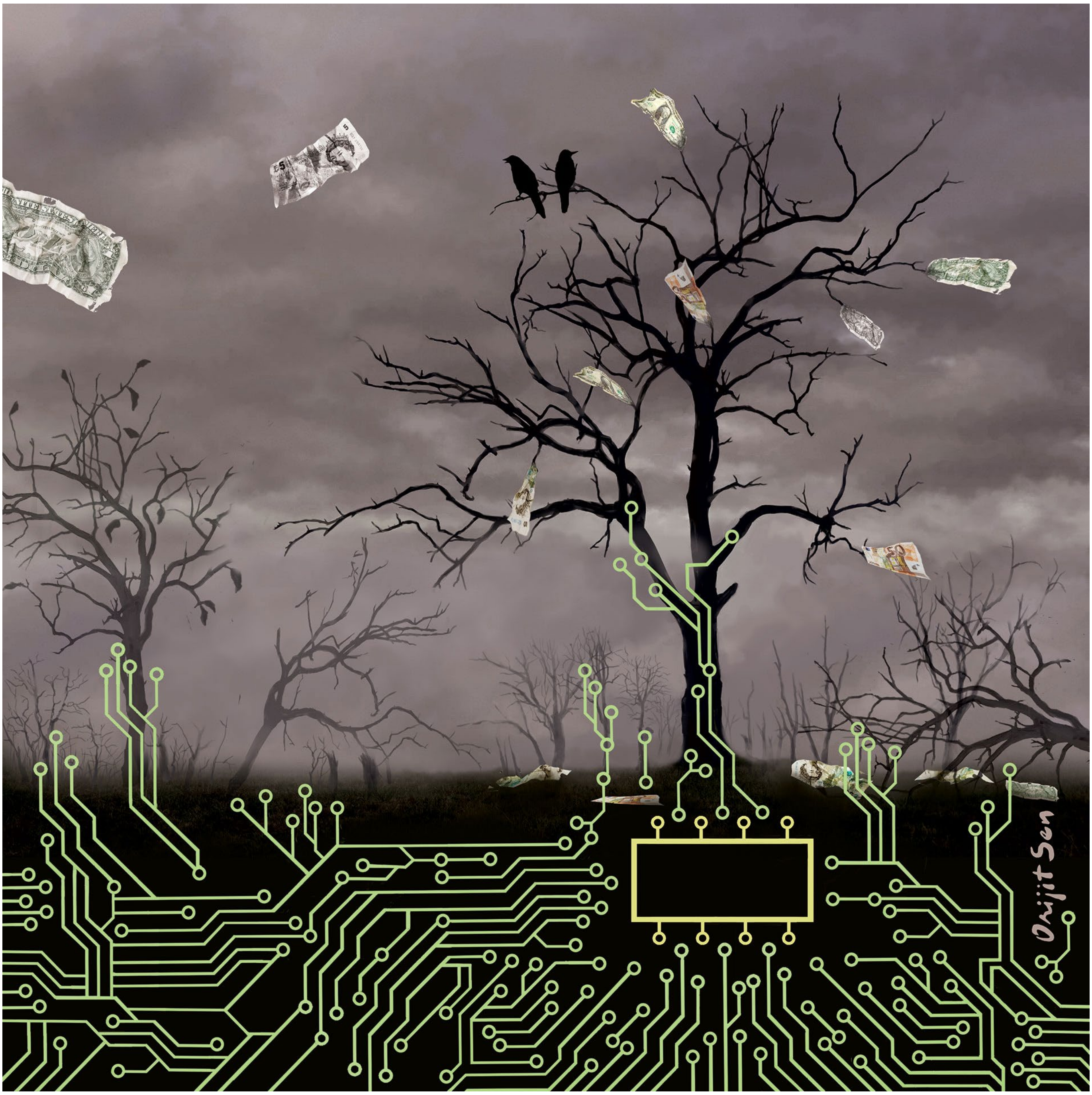
Gentrification of Payments

Spreading the Digital Financial Net

Brett Scott



A slow-moving phenomenon is unfolding all over the world. It will have serious consequences, but very few people are consciously aware of it, perhaps because it involves something seemingly banal and benign: the spread of digital payments.

This phenomenon is not only occurring in the major cities of economically advanced nations, but also in poorer countries, often promoted via the 'financial inclusion' programmes of international development organisations in partnership with major financial institutions. The rise of digital payment (sometimes going under names like 'e-money', 'plastic money' or 'mobile money'), and the associated phasing out of physical cash, gives financial institutions and governments a new means of financial monitoring and control on an unprecedented scale. As I will argue, this can be seen as the *gentrification* of payments.

The term 'gentrification' usually refers to the neighbourhood process in which a marginalised community – often characterised by informal economic networks, street markets and a rough edgy vibe – finds their environment gradually diluted by the influx of wealthier newcomers who price them out and use their community as the setting for new formal markets. The process sets in motion a 'cleansing' of informality, in which the newcomers, who are attracted to certain desirable appearances of the community (such as the music or the fun atmosphere), eliminate the threatening elements that accompany the original precarity (the gangs, the drug dealers, the rough markets).

A process of neighbourhood gentrification culminates with a hollowing out of the original community, the neutralisation of the risk that it represents to wealthier people, and the rise of an unthreatening simulacrum of that community backed by elite business owners and large-scale institutions. It may begin with hipster clothing boutiques replacing the small-scale fabric merchants, but inevitably it is completed with the appearance of corporate chain-stores that replace everything from family-owned delis to religious community centres.

When we stand back and generalise, though, 'gentrification' simply appears as the process in which informal and unpredictable community networks that are potentially threatening to mainstream business interests are replaced by formal, standardised and predictable state–corporate structures, accompanied by superficial appearances of 'niceness', 'coolness' and convenience. The figure of the 'consumer' seeking a 'buying experience' from a shopping mall replaces the community member seeking belonging within networks of friends, family and associates.

How does this relate to payments? Cash is a form of payment long associated with those on the lower rungs of post-colonial informal economies – the fish market in Maputo, the back-street hairdresser in Mumbai, or the Andean craft merchant – issued by states but easily taken out of their view and direct control. Digital payment, however, is the domain of large-scale globalised financial corporations, and cannot be separated from them or taken out of their view. To use – or to be forced to use – digital payments is to enter their sphere of influence and power. In all gentrification processes, those who are dispossessed support themselves through informal structures, or gain a sense of identity, meaning and belonging from using those structures. From the perspective of large-scale institutions, however, such people are often implicitly seen as backward, even criminal, seeking to escape the gaze of benevolent and responsible institutions that they would be better off with.

The financial inclusion community – which aims to bring formal financial services to people without access to formal finance – likes to present itself as a force for social empowerment, but it often appears closely allied to the interests of big finance and big tech. A simple search on Google images for the term 'financial inclusion Africa' reveals countless promotional images of rural women smiling into the screen of their mobile phones, looking at an app produced by a distant group of men in some large city, and tethered to a corporate datacentre that monitors and tracks their actions in order to seek out opportunities for institutional profit.

The Technicalities of Payment

To grapple with this, we must first explore the basics. Every day modern market economies are host to countless instances of one basic social interaction. Two people meet in a market setting. One of them hands over something specific and immediate – like bananas, or a manufactured toaster, or a particular service – and the other hands over something general and future-oriented – *money tokens* that give access to a range of potential goods and services from others in future. Zoom out, and we can see a giant interdependent network of people and firms moving real goods and services in one direction in exchange for money tokens in the other. We are all enmeshed within, and dependent upon, these monetary market networks.

Most people use national currencies, money tokens that work only within a particular geographic area. These national currencies come in two basic forms. First, there is cash, physical tokens issued by state-backed institutions like central banks and government treasuries. Then there are digital bank deposits, the 'money' we see in our bank accounts. These digital tokens are legally different to cash. They are private IOUs (promises) issued by a bank, promising you access to state cash should you request it. The act of going to an ATM to withdraw cash is thus the act of converting the IOUs in your bank account into the thing that has been promised to you. Alternatively, we can transfer these bank IOUs between each other via bank-to-bank transfers.

'Bank money' (digital bank deposits) can be contrasted to 'state money' (cash), but we nevertheless experience them as being functionally equivalent: in many places I can walk into a store and pay by 'cash or card'. Nevertheless, bank money is not only legally different to state money, but also technologically different in its implementation and experientially different in its 'feel', psychology, and the way we interact with it. Cash tokens are physical objects produced by a mint or banknote manufacturer, and cash transactions are essentially peer-to-peer, involving two people only. I hand over cash at a market stall and receive a jacket in return. We might decide to report the transaction later, and various records such as receipts might be kept, but in principle only two of us are required for the transaction to occur.

Bank money, on the other hand, takes the form of 'data objects', units recorded on databases controlled by commercial banks. I can carry cash tokens around but cannot do so with bank money. It resides as data far away in my bank's datacentre, and the only way to 'move' it to someone else is to contact my bank and ask them to debit my account and credit the account of the person receiving the money. Nowadays there is a plethora of digital payments apps and devices, but the basic structure of digital bank money transactions has four predictable elements:

1. You need a bank account
2. You need a way to prove who you are and that you are the rightful owner of the account
3. You need a way to send messages securely to your bank's datacentres in order to initiate a transaction
4. The seller needs a way to receive confirmation of the payment

These elements can be implemented in a variety of ways. For example, I might insert a Visa debit card into a point-of-sale terminal at a supermarket and tap in a PIN code, after which the terminal will send my details (via the Visa system) and my transfer request to my bank. I might access a payments app using a fingerprint reader on my mobile phone and then scan a QR code giving me the seller's details. I might tap an Apple Pay app attached to my credit card. The process might entail layers of intermediary institutions – from telecommunications companies to tech firms to credit card networks – but in the end the same basic thing is happening: a message ends up at my bank (or at a secondary payment service provider, which uses a bank to clear transactions) requesting that they alter my account.

Even in situations where it appears that banks are not involved, they are. Services like PayPal, or M-Pesa in Kenya, or Paytm in India, or WeChat in China are essentially new layers built over the bank digital money system, or collaborative ventures with banks, or intermediaries between you and a bank. You can have accounts with them, but they in turn will have accounts with banks.

The experiential dynamic

While we may use both cash and digital bank money to achieve the same thing – buying something in a shop – they come with different technical and experiential features that make a very significant difference. Usually, when people are asked to describe that difference they fixate on the immediate *experiential* features. They might give opinions on which is faster, more convenient or easier to use at the moment of the transaction. They may have opinions on which is the more familiar or culturally resonant, or which of the two seems safer. If they have thought more about it, they might make deeper observations on the psychological features – for example, perhaps they feel they spend more when they use digital because it seems 'less real'.

All these experiential features are important to study, but they are grossly over-represented in popular debates about the merits of digital payment. The most crucial difference between cash and digital money systems is not so banal as the question of which offers the greater short-term convenience. Rather, it is the technological or structural difference. Cash is a 'bearer instrument' that requires no third party to stand between a buyer and a seller, whereas digital money is a 'ledger money' system that requires various third parties to stand between buyers and sellers. People often seem unaware of this, or feel that it is irrelevant, perhaps because the intermediation often happens so fast that it is not consciously noticed, taking the form of a mysterious background process that works just 'like magic'. It is from this background process, however, that the deepest politics and potentialities of digital payment all stem.

The potentialities of remote intermediation

So, what are those politics and potentialities? The remote and intermediated nature of digital payment creates a number of initial features:

- If you are far away from the person with whom you are trying to do business, but you have access to telecommunications infrastructure, you can pay without being physically near to them. This is why digital payment is ideal for Internet commerce, but also for many other situations in which goods need to be supplied from afar. For example, a street vendor might wish to purchase goods from a wholesaler on the outskirts of the city without having to leave their stall to engage in a face-to-face transfer of cash.
- If the cash-distribution infrastructure has broken down, does not work properly or is poorly developed (e.g. a town with only one broken ATM), a person can still pay simply by having access to telecommunications.
- The lack of physical possession of cash means it is hypothetically 'safer' (assuming you are not subject to fraud or hacking of your digital account).

It is on these types of features that the mainstream of the financial inclusion community initially focuses. This includes groups such as the Bill & Melinda Gates Foundation, the Omidyar Network, CGAP, the Better Than Cash Alliance, and a host of others that present digital money as safer or more convenient for customers, and more efficient for vendors (who can potentially process more digital transactions more securely). Academics in the field have produced studies on the interpersonal and psychological dynamics of having cash on hand versus having money in bank datacentres, while various financial technology start-ups highlight the apparently lower costs of providing digital infrastructure to reach rural areas where there may be no ATMs or bank branches.

In general, these groups point to a world in which digital payment overcomes the limitations of cash to enable an expansion of trading opportunities. The key trend has been to cast digital finance technologies as being a force for financial inclusion and economic growth, either in terms of providing people at the 'bottom of the pyramid' with some basic tool to prevent some hardship associated with cash, or to give them access to the benefits of a digital economy from which they are otherwise excluded.

Spreading the digital net: Financial inclusion as technological modernisation

The 'inclusion' story is largely framed in terms of an aspirational modernism. The story goes (roughly) as follows: *wealth, sophistication and advancement are associated with having access to the latest technologies, and the latest technologies are all digital. People in large wealthy cities are the early adopters of these technologies and they are on the top rungs of a global digital economy that provides benefits to an international in-group. The aim thus should be to give people outside it the tools to enter that in-group to share in the benefits.*

This story is running in the background of many media reports, political speeches and corporate advertising regarding financial technology, and it is a very alluring one.

But ‘inclusion’ is a slippery term. For example, imagine that there is an exclusive club of which you need membership to get into. Some people are included, and others are excluded. Promoting ‘inclusion’ in this setting could mean two things. It could mean relaxing the elite membership requirements to allow more people to enter, or it could mean keeping the membership requirements the same while trying to help people to enter by giving them tools and training. Consider, for example, the debate in the UK about how to get more marginalised groups into top universities such as Oxford and Cambridge. There is an implicit recognition that political leadership and the economic system in the UK are dominated by socio-economic elites from those universities, but rather than breaking down that structural elitism many efforts rather aim to squeeze a slightly more diverse range of people into those elite circles.

The financial inclusion community has a similar problem. There is an implicit recognition that the global economy is characterised by hierarchical inequality, with a global geopolitical hierarchy of nations and then a hierarchy of class divisions within each of those nations. At the pinnacle are the urban professional classes in major cities like New York, San Francisco, London, Tokyo, and so on, especially those within finance and technology circles. It is largely unquestioned whether the mainstream large-scale digital economy that they preside over is a good thing, and the objective is not to break down the basic hierarchy within it. Rather, the goal of ‘inclusion’ is to bring more people into the digital net, but in the subordinated position of someone who passively accepts and uses the technology developed by those in the major global cities.

If you are operating under the assumption that it is a good thing to spread dependence on digital payment, there are several avenues to pursue:

- Give people access to bank accounts, or alternatively, to accounts with digital payments providers built on top of the banking sector
- Give them a means to communicate with those institutions remotely through digital communications, mobile devices, apps, and so on
- Give people new means to prove who they are (identity verification) when opening those accounts or when communicating with the banks or companies who host those accounts
- Phase out the alternative means of payment – cash

Some of the most controversial stories in the Global South are related to this process. A well-known example is the Indian government’s 2016 ‘demonetisation’ programme, in which key banknotes were withdrawn from circulation, causing major economic disruption for many poorer people who relied upon cash. The Modi government initially presented the programme as a measure to combat ‘black money’, corruption and crime, but later spun the story into one of aspirational digital modernism, a tale of a bright, desirable and convenient cashless future that people would be pushed into whether they wanted to go or not. The very day after the Modi government announced the programme, digital payments companies raced to run fawning front-page newspaper advertisements praising his actions. Paytm, for example, plastered a full-page advert on the front of the *Times of India* and *the Hindustan Times* stating: *Paytm congratulates Honorable Prime Minister Sh. Narendra Modi on taking the boldest decision in the financial history of Independent India! Join the revolution!*

The same underlying message is also championed through India's colossal Aadhar biometrics programme, the world's largest, which has similarly been framed in terms of financial inclusion and modernisation: to open accounts for digital payment people need to verify their identity, and biometrics have been pitched as a way for non-literate or marginalised people to do just that.

The official Indian government line runs closely to the commercial interests of the digital financial sector, and these are but two of myriad politicised programmes around the world to promote a shift to digital payment and banking, and which intersect with myriad private-sector corporate efforts to do the same, often with the support of major international development institutions. Where banking services among poorer communities are poorly developed, there has been a push to 'leapfrog' over traditional banking with mobile intermediaries plugged into the banking infrastructure. For example, M-Pesa in Kenya was built upon the Safaricom mobile phone networks: many people had sim cards but not bank accounts, and the strategy was thus to turn a phone number into a rough equivalent of a bank account number, while the phone company interfaced with the banking sector in the background.

The overlooked features of digital control

In the zealous push for digital financial inclusion, a number of key features of digital payment have been curiously glossed over, or spun in one-sided positive terms. The intermediated nature of digital money means:

The intermediaries can watch your transactions, and collect data about your everyday economic activities

- The intermediaries can block your transactions
- Because you do not possess the money tokens on your person, they can be expropriated or frozen by the institutions
- If the telecommunications or electrical infrastructure goes down, or if the intermediaries experience a hardware or software failure, you can be shut out
- The digitally connected nature of the infrastructure opens it up to whole new cybercrime attack vectors and malicious forms of hacking

Put bluntly, digital payment facilitates a vast new frontier of financial surveillance and control, while also exposing users to new risks not present in the cash infrastructure.

Initially, critical reflection on these negative potentials was avoided by the promoters of digital finance because the first phase of most digital products is 'additive': digital services are added to an existing situation and so initially represent an exciting 'new option'. For example, an economy that previously only had access to cash gets a new digital option, which opens up a field of creative possibilities. These may be used to get around some old problems (albeit introducing some new ones), or alternatively they may make an earlier form seem like a 'problem' in comparison (to use an analogy, you do not see a wood fire for heating as a 'problem' until your neighbour is given electricity). The addition thus generally seems like a positive force.

It is only in the later phases of these systems, when the new form establishes itself and spreads wide enough to begin to choke out the older systems, that it begins to get 'monopoly' power. In the case of digital payment, this 'spreading-towards-monopolisation' process has been pushed by various factors. While the popular narrative in the financial technology industry is that people 'voluntarily' opt for digital payment, on closer inspection the story is a lot less clear.

First we see concerted political efforts to demonise cash through outright propaganda, sometimes from state bodies (such as Modi's government in India), but often by large commercial payments companies – such as Visa – that have a commercial interest in getting rid of cash. In a 2016 press release, for example, Visa overtly stated that it had a 'long term strategy to make cash "peculiar" by 2020'.

Then we see attempts to incentivise digital payment. For example, Visa has a programme of rewarding small trendy businesses such as boutique coffee shops in key urban areas to 'go cashless', and thereby spread the message and norms of digital payment to their customers (who could include, for example, the innovation journalists, media pundits and consultants who will spread the message further).

Then there are attempts to make cash harder to use, which has the effect of making digital payment seem relatively attractive, inspiring people to 'choose' it. For example, banks shut down ATM services and thereby make cash more inconvenient.

Then there are all the corporate and state-backed attempts to upgrade and introduce infrastructure to make digital payment more feasible and attractive.

These processes cause many subtle network effects and feedback loops to kick in. As the economic and cultural landscape of payment choices begins to shift, banks, payments companies and states use evidence of that shift to push even people who do not wish to use digital payment into using it. As further investment goes into digital financial services rather than physical ones, and de-investment occurs in non-digital branches and ATMs, people start to get – in relative terms – penalised for using cash, and begin to be seen as nuisances by shop owners, and presented as Luddites in news reports or popular media. People find themselves coerced or 'nudged' into using digital payment.

What is really going on, however, is a process of expanding the digital financial net, which is basically a process of consolidating the collective power of the banking sector, the commercial payments industry that is built upon it, and the technology companies that provide the apps and interfaces into that system. While individual banks might have private battles with each other and with financial technology companies over who gets what slice of the digital finance pie, in general the shift is driven by financial institutions' desire to automate their processes in order to cut costs, expand their reach and extract ever more data about ever more customers. In other words, financial institutions' desire to automate is not contingent upon what their customers want, but is rather an intrinsic internal drive that they justify by pointing to customer segments (such as 'millennials') who are early adopters of digital finance. While digital finance is initially presented as an additional option, in the longer term it really involves eliminating the competing non-digital options, reducing choice rather than adding to it. Thus, towns of mainly retirees in rural UK have bank branches and ATMs shut down because banks can optimise profit by forcing them to use digital banking, while telling them that it is 'millennials' who are 'driving the change'.

As digital payment takes over and cash is further demonised and discredited, the story about digital financial inclusion becomes more acute. If there is general consensus among the powers-that-be that digital represents progress, and if there is ever-increasing evidence of more dependence on digital finance (much of it engineered by financial institutions themselves), then the risk of being excluded for not using it is greater than ever, and the task of providing access to it becomes seen as more noble than ever.

Nowhere is this circular dynamic better illustrated than in the agenda and operations of the Better than Cash Alliance, an initiative run under the auspices of the United Nations Capital Development Fund, but funded by Visa, Mastercard, Citibank, Bill & Melinda Gates Foundation, Omidyar Network, USAID and a host of international corporations and mainstream NGOs. The Alliance fluctuates between talking about the additive benefits of introducing digital payment, and demonising cash to promote the elimination of the competing option. They work hard to establish as common sense the idea that digital payments are empowering, modern and aspirational, and presenting cash as outdated, dangerous, a weight on the economy, and a friend to the criminal underworld. Empowerment in this framing involves ensuring everyone becomes incorporated into the widening digital financial net.

The demonisation of unmonitored informality

The promoters of digital finance cannot forever skirt the question of the surveillance and data extraction that accompanies digital payment. In general, however, the strategy has been to spin surveillance as transparency, and to emphasise it as a tool to root out corruption and criminal transactions. Data extraction is also heralded as a positive step towards providing more general financial services, such as credit-scoring for loans. For example, Safaricom and the Commercial Bank of Africa launched the M-Shwari loan system, which uses payments data from the loan recipients' M-Pesa accounts to work out credit scores.

There is no denying the localised and individual benefits that certain digital finance interventions can have. The point here is not to dismiss the efforts of initiatives like M-Shwari, but rather to point out the one-sided discourse that they are used to support. Examples like M-Shwari are spun into the service of a broader project of promoting the general industry interests of large-scale technology and financial corporations. The overarching discourse has become one that is disdainful towards economic informality and small-scale economies, and uncritical of large-scale systems co-ordinated through major corporate and government institutions. The latter are implicitly presented as exemplars of progress, while informal arrangements, unmonitored interactions and sprawling and unpredictable networks of peer-to-peer relationships are seen as the realm of backwardness, crime and failure.

We are thus left with an official story in which progress entails phasing out cash and transitioning people to dependence upon architectures of digital payments that can be used to monitor them, discipline them, reward them, market to them, and influence them. This is all justified by an assertion that such an architecture will provide benefits, will be cheaper to run, will be safer, will 'upgrade' people into the modern world, will use peoples' data to give them wider access to services, and will be a force for social 'hygiene'. Above all, it is a story in which informal relationships are dissolved and replaced with institutionally mediated relationships, thereby 'cleansing' informality. This is the gentrification of payments.

Gentrifying towards control

Of course, it is only when this digital net fully assumes a monopoly position that its negative potentials really start to shine through. Nowhere is this potential more apparent than in China's new 'Social Credit System', a programme in development to monitor citizens in order to provide them with reputation scores, or to threaten them with possible assignment to blacklists. The apparent aim is to create a 'carrot and stick' system that rewards those who follow official conventions and behave correctly, and penalises those who do not, barring them from services such as air travel if they deviate. The details of the system being built are opaque, and still subject to speculation, but reports indicate that it is being built in conjunction with digital payments companies (such as WeChat) or will integrate with the pre-existing credit-scoring data and payments data from major digital financial companies like Ant Financial (parent company of the Alipay system). Data is not used only for inclusion. It is used for exclusion.

While the Chinese Social Credit System looms in the Western imagination like an episode from a science-fiction movie, this process of digital monitoring, scoring, tracking, and steering is occurring all over the world, often explicitly endorsed by liberal democratic states that wish to promote the industry interests of finance and technology corporations. The gentrification of payments is one key strand of this overall process. It is a fragmented, partially completed, but nevertheless calculated programme to steer people into a digital financial net that may offer them short-term, narrow benefits while simultaneously exposing them to large-scale collective threats that are systematically downplayed. It is time for civil society groups and activists get to grips with this phenomenon and address it.

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Brett Scott is a journalist, campaigner and the author of *The Heretic's Guide to Global Finance: Hacking the Future of Money* (2013). He works on financial reform, alternative finance and economic activism with a wide variety of NGOs, artists, students and start-ups. He produced the 2016 UNRISD report on blockchain technology, and is a Senior Fellow of the Finance Innovation Lab, an Associate at the Institute of Social Banking and an advisory group member of the Brixton Pound. He tweets as @suitpossum

Notes

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3. See, for example, Visa's 'cashless challenge' with $10,000 prizes to small businesses that refuse to accept cash [https://usa.visa.com/about-visa/cashless.html].
4. See https://www.theguardian.com/money/2018/jun/29/hundreds-of-cash-machines-close-as-uk-turns-to-contactless-payments].
5. See my further comments on this 'nudging' process here [https://www.theguardian.com/commentisfree/2018/jul/19/cashless-society-con-big-finance-banks-closing-atms].
6. Within the 'fintech' or financial technology industry there is a perennial pseudo-debate about whether banks will be 'disrupted' and replaced by fintech companies, but the reality is that banks buy up the fintech companies, or else provide the underlying digital money infrastructure that most fintech companies rely upon. Groups like Paytm in India, for example, cannot operate without interfacing with the banking system.
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The Next Shareholder Revolution

Owen Davis

A surprising concern has arisen recently on Wall Street: markets are becoming socialist. The culprit is passive investing, the use of quasi-automated vehicles that provide access to broad stock indexes with minimal cost and effort. The rush into such products – and the decline in human stock-picking – recalls, to some, a form of socialism. As one analyst wrote, 'If everybody does the same thing, the index becomes the market resulting in the equivalent of investor socialism'[1]. Another called passive investing 'worse than Marxism'[2]. For famed hedge fund manager Paul Singer, such funds are 'devouring capitalism'[3].

The argument has precedent. In 1914, a prominent German banker surveyed the growing consolidation of industry under the control of major banks and grew uneasy. 'One fine morning we shall wake up in surprise to see nothing but trusts before our eyes, and to find ourselves faced with the necessity of substituting state monopolies for private monopolies', he wrote. Financiers would have abetted the rise of socialism, he argued, 'accelerated by the manipulation of stocks'[4].

Evident then, as now, was a seeming paradox: that the tools of finance might serve ends other than pure capitalism. Indeed, the idea that finance could be a socialising force is an old one on the left. For radicals going back to Marx and his forebears, corporate stock provided a template for both the socialisation of ownership and redistribution of income.

Today, progressives, social-environmental activists, and even socialists are gathering around the stock market, that border space between the productive economy and the financial system. Through the ownership of corporate equity, they hope to spur changes in areas as diverse as climate justice, money in politics, gender and racial inclusion, and economic inequality.

In effect, they want a second shareholder revolution. The first, launched in the 1980s, saw the reorientation of business away from an array of stakeholders – managers, consumers, labour – to stock-owners alone. Spearheading this revolution were the infamous corporate raiders, joined by investors thirsty for returns after a long profit drought. Together they realised the vision Milton Friedman outlined in 1970: that corporate managers should 'conduct the business in accordance with [shareholders'] desires', that is, 'make as much money as possible'[5]. Shareholder value became the sole end of business.

Agitating for the next shareholder revolution are three groups I refer to as *social shareholders*. These include ethical activists, who use stock to push corporations on environmental issues, executive pay and the like; pension funds, which have the ability and, increasingly, the inclination to use their trillions of dollars in assets to nudge businesses towards social responsibility; and advocates of sovereign wealth funds (SWFs), publicly managed pots of money that pay back into the commonweal. Alongside the social shareholders are politicians ranging from US Senator Elizabeth Warren to British Shadow Chancellor John McDonnell, who are pushing to place workers on corporate boards and to establish worker employee funds.

To understand how these forces came about and where they might go, I present a historical sketch that explores the tradition of left and progressive plans to strategically exploit the stock market, from the utopian socialists of the early 1800s to civil rights activists of the twentieth century and beyond. In this context, we can better evaluate the prospects faced by social shareholders in the financial capitalism of today.

Social shareholders have the potential to realise radical aims to the extent that they embody a new power structure power within global markets. Smaller, disassociated shareholders gain leverage when they meet with larger allies, as pension funds have done for activists. If SWFs and other public vehicles take on the new role of centralisers, around which others cohere and magnify their voices, the combined power might finally provide a counterweight to financial capital *within* the ambit of finance.

Definitions

Before casting back into history, though, some context is in order.

Shares of companies account for about $80 trillion of wealth worldwide[6], of which US market capitalisation makes up about 40 per cent (for this reason, and because the US leads the way in stock market developments, much of this account will be US-focused)[7]. Global stock market wealth represents 110 per cent of global Gross Domestic Product (GDP), up from 30 per cent in 1980[8]. Listed companies make up a major share of employment and economic activity in developed countries. The wealth of nations is, more than ever, the financial wealth of corporations.

What is a share? To a new company, it is lifeblood. Once sold, the share becomes a barometer of investors' beliefs. Functionally, it is a promise of future income. Day to day, its price on public exchanges follows hopes, hunches and crowd psychology, rooted in a collective estimate of future profitability.

The second key fact of shareholding involves ownership. Convention holds that the owners of Apple stock collectively own Apple Inc., just as I own my iPhone. Legally, this is not quite true[9]. Shareholders simply own bundles of rights: to collect dividends and to weigh in on high-level decisions, like who sits on the board or whether a corporate buyout should go through. More prosaic matters – say, whether Apple should give the iPhone a normal headphone input again – lie outside shareholders' reach.

Here it is worth noting two egalitarian potentials intrinsic in the corporate form: collective ownership (of a kind) and wealth redistribution. If the economy were a single corporation and every citizen a shareholder, two of the chief goals of socialism would be met.

Who are the shareholders? Rich people, mostly. In the US, the wealthiest 10 per cent of households own 84 per cent of corporate stock outstanding[10]. But the ranks of stock owners also include pension funds securing workers' retirement incomes, colleges plumping endowments, insurance companies stewarding assets, hedge funds playing the markets, individual households putting away savings, big banks and asset managers.

Mixed into these groupings are what I call social shareholders. Broadly, they can be defined as those whose stock ownership is driven by non-pecuniary motives, typically political or ethical, and/or exists to further a redistributive goal. Most familiar are the **ethical activists**, as distinct from hedge funds and other purely profit-seeking activist investors. Ethical activists buy stocks in order to lodge criticisms, file resolutions, and cajole other shareholders into voting their way. Since the 1970s, they've been a fixture in annual meetings, pushing for everything from governance reforms to climate adaptation. Recently they have included nuns pressuring US gun manufacturers to account for the toll of mass shootings and a coalition calling for drug companies to address the opioid epidemic. British activists have pushed at least 4,000 companies to adopt living wage policies.

Next come **pension funds**. For as long as pensions have existed, they have used the pooled retirement savings of workers more or less politically, from financing public housing to wielding their assets in labour–management negotiations. But in recent decades, particularly in the US, pensions have expanded their investment offices and focused their holdings on a broader set of issues in business, notably executive compensation.

Finally, there are the **sovereign wealth funds**. To date, most such funds owe their existence to oil revenues, such as those in the Arab Gulf States and in Alaska, though other funds have sprung up in places like New South Wales in Australia. Calls have multiplied among progressives for publicly owned funds that might distribute their dividends as a sort of universal basic income. Notably, Hillary Clinton considered adding the idea to her 2016 presidential platform, inspired by Alaska's success[11].

Unlike pensions and ethical activists, the purpose of SWFs is primarily distributional, a fact especially apparent in the recent SWF proposals, of the American Matt Bruenig and Stewart Lansley in the UK[12,13]. Both imagine SWFs as public vehicles that collect financial assets by taxes or levies and distribute dividends directly to citizens or finance public investments. SWF-like ideas have also arisen in recent political proposals. US Senator Cory Booker proposed a fund that would collect assets to be distributed to low-wealth young adults, a proposal that has the general shape of a SWF. Other plans go beyond distributional concerns to focus on democratising control of production: British Shadow Chancellor John McDonnell's Inclusive Ownership Fund would require large companies to transfer stock to worker funds; US Senator Elizabeth Warren would follow Germany's lead and give workers seats on corporate boards.

The grouping of social shareholders outlined above reflects more a stylistic choice than any existing alignment. Yet as will be seen below, the groups are likely to encounter mutual advantages and interconnections. An open question is how SWFs, together with other government-directed corporate governance initiatives, might transform the broader landscape of shareholder power and reimagine – to use an unfashionable phrase – corporate democracy.

History of the Social Shareholder

Birth of the corporation

The corporation emerged as a tool of conquest. European governments needed a way to finance trade ventures without risking too much individual wealth. In 1602, the Dutch East India Company became the first company to sell shares to the public. The company's monopoly over the spice trade in southeast Asia allowed it not only to trade but essentially make war. An early windfall came in the plunder of the *Santa Catarina*, a 1500-ton Portuguese carrack, near Singapore in 1603[14].

As soon as was there were shareholders, however, there was shareholder activism. Rival investors battled for control. Then there was the issue of the *Santa Catarina*. Though its booty had enriched the shareholders, pacifist Mennonite investors complained that they were essentially financing piracy. They faced a dilemma that would become a commonplace in ethical activism: whether to engage as owners, or to divest and wipe their hands. They did the latter[15].

Other colonial powers soon chartered their own enterprises, which came to be known as joint-stock companies. But it was not until the Industrial Revolution that these enterprises began to resemble modern corporations. As production grew in size and complexity, particularly in Britain, the needs of capital outgrew the capacity of the partnership or sole proprietorship. By offering ownership shares to the public, the joint-stock structure allowed for larger operations and smaller risks for entrepreneurs.

Soon enough, these financial innovations inspired radicals. Among them was John Francis Bray, a US-born printer who influenced early Anglo-American radical movements. Bray saw in joint-stock enterprises 'the best exemplification of the power which man may wield', whose 'gigantic power' was found in 'innumerable roads, railways and canals, and in the creation and distribution of almost every description of wealth'. In Bray's utopia, the economy would be 'one great joint-stock company', free of competition and subdivided into many subsidiaries. Communities would 'universally produce or distribute wealth, and exchange their labour and their productions on one broad principle of equality'[16].

Bray left the details vague, but his ideas prefigured later arguments about the socialising potential of corporations. By dispersing ownership claims, joint-stock companies encouraged a more fluid distribution of profits. It is no great conceptual leap to imagine a socialised economy consisting of a few great joint-stock companies in the largest industries – shipping, communications, manufacture – their shares evenly distributed. Nor was Bray the only early socialist to build a utopia on the foundations of the joint-stock company. In 1842, the pseudonymous Aristarchus proposed a system of 'Interchanging Joint-Stock Companies', which would form a 'community of profits' to supersede the 'community of property'. A pamphleteer called John Frearson envisaged a society of 'equitable joint-stock companies' run by 'working shareholders'[17].

Of course, workers could simply bypass the financial system and organise production themselves. Worker-owned cooperatives sprung up around Europe and the US in mid-1800s – to Marx they represented 'within the old form the first sprouts of the new' – and have been a fixture, if a marginal one, within capitalism ever since. In the US, black cooperatives joined economic solidarity with racial emancipation. Yet the growth of cooperatives has been constrained by competition and access to capital.

Few socialists better appreciated the revolutionary potential of corporations than Karl Marx. For him, the divorce of ownership from control represented 'a mere phase of transition to a new form of production'. The single, private capitalist was being supplanted by collective, 'social' capital, which was 'distinct from private capital'. The joint-stock company became 'the abolition of the capitalist mode of production within the capitalist mode of production itself'[18].

Marx had some personal experience in this department. 'I have, which will surprise you not a little, been speculating', he wrote to a friend after coming into a windfall in 1864. Betting on a bubble in English joint-stock companies, which were 'springing up like mushrooms', Marx made a purported £400 – nearly £50,000 today. His justification: 'It's worthwhile running some risk in order to relieve the enemy of his money'[19].

The Gilded Age

Despite Marx's hopes, corporations generally served a purely capitalist function. Perhaps no country took to corporations as energetically as the US. Following the Revolutionary War, the young states issued a flurry of corporate charters. These entities served a range of purposes both civic and commercial, from schools to banks to cotton manufactories. Nearly all of them promised some 'public utility' beyond that of profit-making[20].

But US corporations soon shook off their civic attire. By the mid-1800s most operated under the control of a small coterie of shareholders who appointed close associates as managers. Towards the end of the century, tycoons like David Rockefeller enacted a wave of mergers through complex stock manoeuvres and, occasionally, outright fraud. The corporation, once an expression of democratic impulse, became the locus of gilded-age plutocracy[21].

A similar process took place in Germany. Its highly concentrated banking system had consolidated industry to the point where equity finance seemed a relic. Bank loans to corporations supplanted stock issues, and Germany's so-called Big Three banks owned so much stock that exchanges atrophied. To Rudolf Hilferding, theorist and Weimar Republic finance minister, this evolution betokened a new stage in capitalism: that of 'finance capital'. For Hilferding, it was not the corporation that held revolutionary potential, but the banks. 'Taking possession of six large Berlin banks would', he wrote, 'greatly facilitate the initial phases of socialist policy' – just as German bankers feared[22].

Banks were also ascendant in the US, where the likes of Andrew Mellon and J.P. Morgan helped forge twentieth-century US capitalism. But unlike in Germany, Wall Street's rise empowered the small shareholder, as companies made use of the New York Stock Exchange to mass-market their shares. Between the start of World War I in 1914 and the end of the 1920s, the portion of US households owning stock rose from around 3 per cent to nearly one quarter[23]. Then came 1929.

The Golden Age

The Great Depression altered the face of corporate governance for generations. With New Deal legislation came limits on how much corporate equity a bank could own. A new paradigm took hold for executives and shareholders: professionalisation of the former, marginalisation of the latter.

This was the age of managerialism. In their 1932 classic, *The Modern Corporations*, New Deal economists Adolf Berle and Gardiner Means described how buccaneering investors had given way to staid careerists in charting the course of corporations. With shareholders facing irrelevance, the 'traditional logic of property' no longer held. Looking ahead, they suggested a 'purely neutral technocracy', should control the great corporations, resolving stakeholder disputes and distributing income 'on the basis of public policy rather than private cupidity'[24]. Inspired by this analysis, Marxist economists Paul Baran and Paul Sweezy declared that shareholder control was 'for all practical purposes a dead letter'[25].

Although some of this was overstatement, it was true that major shareholders and financiers had had their wings clipped just before the golden age of capitalism took off. But the New Deal legislation that established bodies to police Wall Street also empowered small shareholders to exercise their voice in new ways. Thus, in the nadir of financial power, a new breed of shareholder was born: the corporate gadfly.

The gadflies reflected the social currents of their time. In 1949 Wilma Soss began gate-crashing the annual meetings of companies like US Steel and lobbying for the inclusion of women on their boards. (Around one-fifth of listed US companies still have no women directors[26].) In 1948, Civil Rights activists James Peck and Bayard Rustin bought one share each of Greyhound Corporation and submitted a proposal for it to consider desegregating its southern bus lines. While companies could generally block such proposals, with regulatory approval, by 1970 regulators sided with the gadflies. The floodgates opened to ethical activists, particularly environmentalists and Vietnam war protestors, as long as their proposals avoided focusing on 'ordinary business operations'[27].

For activists like corporate responsibility advocate Ralph Nader, Sisyphean shareholder campaigns served to grab attention. When Nader targeted General Motors, for instance, his proposals won just 3 per cent of votes; yet the company acquiesced to his demand of adding an African-American to its board[28]. When legendary organiser Saul Alinsky started involving shareholders in his corporate campaigns, he imagined a 'Proxies for People' movement, in which working-class investors would be 'the razor to cut through the golden curtain' of corporate management[29].

The golden age of capitalism also produced attempts to consolidate economic gains within social vehicles. Progressive economists like James Meade landed on the idea of public funds that would invest in financial assets and deliver payments – social dividends – to citizens. The British Labour party in 1973 floated a 'Workers Capital Fund', whose goal was 'extending opportunities for economic democracy by giving Fund members – through their ownership of shares – direct powers over key financial decisions'[30]. US economist John Roemer proposed a similar plan in the 1990s[31]. The most ambitious application of such a fund took place in Sweden. Authored by economist Rudolf Meidner, the plan proposed to transfer corporate stock into publicly owned 'wage-earner funds' until they were majority owners. What took effect, however, was a watered-down compromise; from 1984 to 1991 only 5 per cent of Sweden's equity entered the funds. It was ultimately 'a rather symbolic gesture', according to Meidner[32].

This was, after all, the age of Thatcher and Reagan. After a period of relative quiescence, the forces of financial capitalism had been gearing up for a counter-revolution. In the 1980s, they pounced.

Maximising shareholder value

In 1976, business theorist Peter Drucker warned that the rise of pension funds – which then held around a quarter of outstanding US equities – would produce 'pension fund socialism'. According to Drucker: 'If "socialism" is defined as "ownership of the means of production by the workers" ... then the United States is the first truly "Socialist" country'[33].

It is ironic, then, that the neoliberal power shift back towards finance was abetted by US pensions[34]. In the 1960s and 1970s pensions (both public-sector and those operated by private-sector unions) emerged as powerful investors. With their newfound financial might, labour-backed pensions sometimes deployed their funds in the service of workers, particularly during union negotiations. Yet the primary purpose of the funds was pecuniary.

Previously, institutional shareholders – insurance companies, mutual funds, pensions, etc. – were marginal players. But their portion of US stock ownership rose from 6 per cent in 1960 to 28 per cent in 1980 (today that share is around 80 per cent[35]). The growth of institutions coincided with a crisis of capitalist profits, amid oil shocks and 'stagflation'. By the 1980s, institutions were agitating for management to shake up their ossified bureaucracies and get cash flowing again. Pensions, tasked with providing retirement security for millions, were no exception.

Pension funds made their influence known in the wave of hostile corporate takeovers in the 1980s. When companies felt targeted, they often adopted 'poison pill' measures to ward off corporate raiders. These were generally seen as harmful to shareholders, since they discouraged takeovers that could yield stock returns.

Pension funds were initially divided over the tactic. Public pensions stood with other institutions against poison pills, arguing that they had a fiduciary duty to oppose measures that threatened beneficiaries' returns. But union-backed private-sector funds faced a conflict: takeovers often entailed layoffs and even the capture of pension assets. Nonetheless, labour-run pensions soon fell in with the rest of the shareholding class. As scholars Stewart Schwab and Randall Thomas wrote, 'Labor unions are active again – but this time as capitalists'[36].

Though commonplace now, the idea that businesses should operate exclusively to reward investors required a new intellectual framework: shareholder value theory. Economist Michael Jensen argued that corporations could act sensibly only if they focused entirely on maximising shareholder returns[37]. Milton Friedman pondered, 'If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is?'[38].

The beneficiaries of this movement were not just pensions. As investors reclaimed their place at the top of global capitalism and policymakers cleared away regulations, Wall Street and the City of London thrived. Hedge funds multiplied, empowered by the logic of shareholder maximisation. In the name of aligning management and shareholder interests, companies increasingly rewarded executives with stock, a trend that helped to balloon CEO pay[39].

Fifteen years after Drucker warned about pension fund socialism, he came to a different conclusion: pension funds had grown *too* capitalistic. The inability of capitalists to reckon with the rise of pensions had led, Drucker wrote, to 'much of the financial turbulence of the 1980s – the hostile takeovers, the leveraged buyouts, and the general restructuring frenzy'. He concluded: 'As a theory of corporate performance, then, "maximizing shareholder value" has little staying power'[40].

Drucker would again be proven wrong. But as pension funds matured, their approach grew more nuanced. Throughout the 1990s and 2000s pensions launched the majority of governance-related proposals, seeking to increase accountability among corporate management[41]. A recent pension-led campaign pushed the number of Standard & Poor's 500 companies allowing proxy access – a policy that allows investors more easily to challenge board incumbents – from 1 per cent in 2014 to nearly two-thirds today[42].

Potentially more consequential, however, have been the ripple effects created by the emergence of institutional investors as structuring agents within the stock ecosystem. Their rise gave the previously hodgepodge ethical activists more powerful and concentrated targets for their campaigns[43]. A single pension fund fiduciary is easier to convince than innumerable dispersed shareholders. The confluence of these factors holds lessons for social shareholders in the future.

Looking Ahead

Three broad themes emerge from the history of social shareholders. First, there has always been, as John Maynard Keynes put it, 'the tendency of big enterprise to socialise itself'[44]. For as long as the corporate form has undergirded industrial capitalism, social activists have reimagined that form in an egalitarian or democratising light. There is, arguably, a real socialising potential inherent in the form of equity finance.

The second lesson is the importance of legal frameworks in regulating shareholder power. Activist investors won new rights in the mid-twentieth century, yet remain fundamentally limited in their influence over corporate affairs. Pensions have similarly expanded their ambit, but remain hamstrung by law – and perhaps their own beneficiaries – to look after the bottom line before anything else. For these groups to approach real control over corporate affairs would require a regime change. A shareholder coalition that wished to keep ExxonMobil's oil in the ground or to split up Facebook currently faces intractable barriers, not only in the law, but in the logic of capitalism itself.

Finally, size matters. Few developments have been so decisive in the power of the social shareholder than the growth of institutional shareholders, which fundamentally changed the nature of corporate governance[45]. As researchers have found, the more institutional ownership a stock has, the more likely it is to be targeted by activists (ethical or otherwise)[46].

Yet even if we classify pension funds unambiguously among them, social shareholders still control just a fraction of the stock market. Their antagonists include hedge funds, whose activism focuses primarily on disgorging cash and ousting board members, and mutual funds, which pursue similar goals through quieter methods. Then there are executives themselves, significant holders of corporate stock. The structure of a firm's stockownership, particularly its institutional makeup, matters for how it is run. Researchers have found that funds with more institutional ownership (particularly 'transient' owners like short-termist hedge funds) invest less and offload more cash to shareholders[47].

Dominating the markets are gargantuan asset managers like Vanguard, Amundi and Aberdeen. It is here that stock markets have most evolved since the financial crisis. Asset managers' passive trading vehicles have attracted trillions of dollars, disrupting their competitors and reorienting shareholder power. Passive ownership means that large investors do not sell when they are upset with a company; instead, somewhat paradoxically, passive investors engage[48]. They also constitute vectors for activism: Getting BlackRock or Vanguard on your side often means winning a shareholder battle. It helps that these companies have warmed to environmental and governance concerns.

Rudolf Hilferding wrote that capturing the six largest banks would pave the way for socialism. Today he might say that socialising the six largest asset managers would facilitate the transition towards an egalitarian economy. In the absence of a citizens' takeover of BlackRock, however, the focus falls on the existing social shareholders. Below are thoughts on the present and possible future of each of the three groups.

Ethical activists

Ethical shareholders have eclipsed the motley gadflies of the 1970s. Today, numerous non-profits devote all or part of their efforts to advocacy in the boardroom. Umbrella organisations serve to coordinate their efforts. The number of proposals filed by such shareholders has doubled since the mid-2000s[49], and their methods have rubbed off on the largest asset managers. To get a sense of the *Zeitgeist*, see the recently penned *Activist Manifesto*, a nearly word-for-word rewrite of the *Communist Manifesto* aimed at socially responsible investors[50].

Yet ethical activism has its limits. Most importantly, proposals must avoid the day-to-day functioning of a business. Climate activists, for instance, have pushed energy companies to issue reports outlining their plans for policies that would keep global warming below 2°C. When ExxonMobil succumbed to such a proposal, the result was, in the words of one financial research firm, 'a finely crafted public relations piece'[51]. Of course, not all activism is impotent. A 2011 study found that shareholder agitation at US chemical companies reduced certain toxic emissions by more than 3 per cent annually[52]. But this kind of result is an exception[53].

Many ethical activists readily admit that shareholder resolutions are just one advocacy tool among many, though a particularly useful one for getting executives' attention. And ethical activism depends largely on developments in the surrounding shareholder ecosystem.

Pension funds

Pension funds have long grappled with a paradox: the tension between the interests of workers today and retirees in the future. In the 1980s this produced the unusual sight of labour-aligned institutions backing corporate raiders in the boardroom. Today, pension funds push governance reforms that increase *both* boardroom accountability *and* stock prices. Ironically, pension funds now play a signal role in assuring the orderly flow of profits.

Yet pensions have also heightened their activism on matters like board diversity and climate preparedness. They have taken aim at hedge funds that short-change workers. Amid this growing ferment have been calls for pensions to challenge restraints that force them to value financial returns above all else[54].

One area where pension funds' efforts seem to have paid off has been CEO pay. For years, pensions have dominated protest votes against outsize compensation[55], a trend that accelerated after financial reforms gave investors more input on the matter. One study found that when CEOs with abnormally high pay are targeted, their compensation falls by an average $2.3 million[56]. (Other studies have found more muted effects[57].)

Pension funds have undeniably achieved enormous stock-market influence. The question is why they have fallen so short of the 'pension fund socialism' Drucker envisiaged. The worker–saver paradox clearly plays a large role: most pension fund decisions boil down to maximising returns. There is also a problem of coordination. Though there are groups that coordinate pension activism, as yet there is no larger structure around which pension funds might gravitate.

Sovereign Wealth Funds

Here is the great unknown among social shareholders. Although there are more than 50 wealth funds worldwide, we cannot generalise about their operations. Still, SWF advocates have taken inspiration from examples like Norway's massive complex of publicly owned funds and the Alaska Permanent Fund, which pays at least $1,000 a year to each citizen in the state.

Yet the impact of SWFs on corporate governance remains unknown. Norway's funds have only recently increased increased their activism. Were the US to institute a fund on the scale of Alaska's or Norway's, it would hold assets in the tens of trillions of dollars – easily half of the current stock market capitalisation[58]. But SWFs would face the same contradictions as pension funds. Would a SWF support a CEO laying off thousands of workers or shifting production abroad? Bruenig has dismissed such conflicts, invoking an image of a fully socialised state resolving disputes[59]. But until or unless SWFs control the entirety of the market, deep conflicts would persist.

Regardless, SWFs would almost certainly invite a structural shift in power among investors. The emergence of pension funds and other institutional investors concentrated and magnified the power of activists. SWFs could serve the same function for the relatively uncoordinated institutional actors and ethical activists out there today.

Final Thoughts

Still, such a coalition could not tackle the systemic issues social shareholders prioritise – inequality, climate change, unchecked corporate power – without an attendant political realignment backed by broader social movements. In the near term, the next shareholder revolution would get a kickstart from proposed reforms such as Booker's, Warren's and McDonnell's. Going beyond that, social shareholders would need to back a wholescale rewriting of securities law.

For radicals and particularly urgent reformers, the idea that that the financial building blocks of capitalism could undo its worst excesses might seem over-optimistic. Yet the history of the finance is one of large, unexpected swings. Half a century ago, Marxists and capitalists alike pronounced the death of the shareholder. Since then, shareholder power has only grown – mostly to the benefit of the rich. If there ever was a time for the social shareholder, it is now. The confluence of sovereign wealth funds with an emboldened pension fund community and widespread ethical investor-activists could, more than ever before, uncover the egalitarian potential of the stock certificate.

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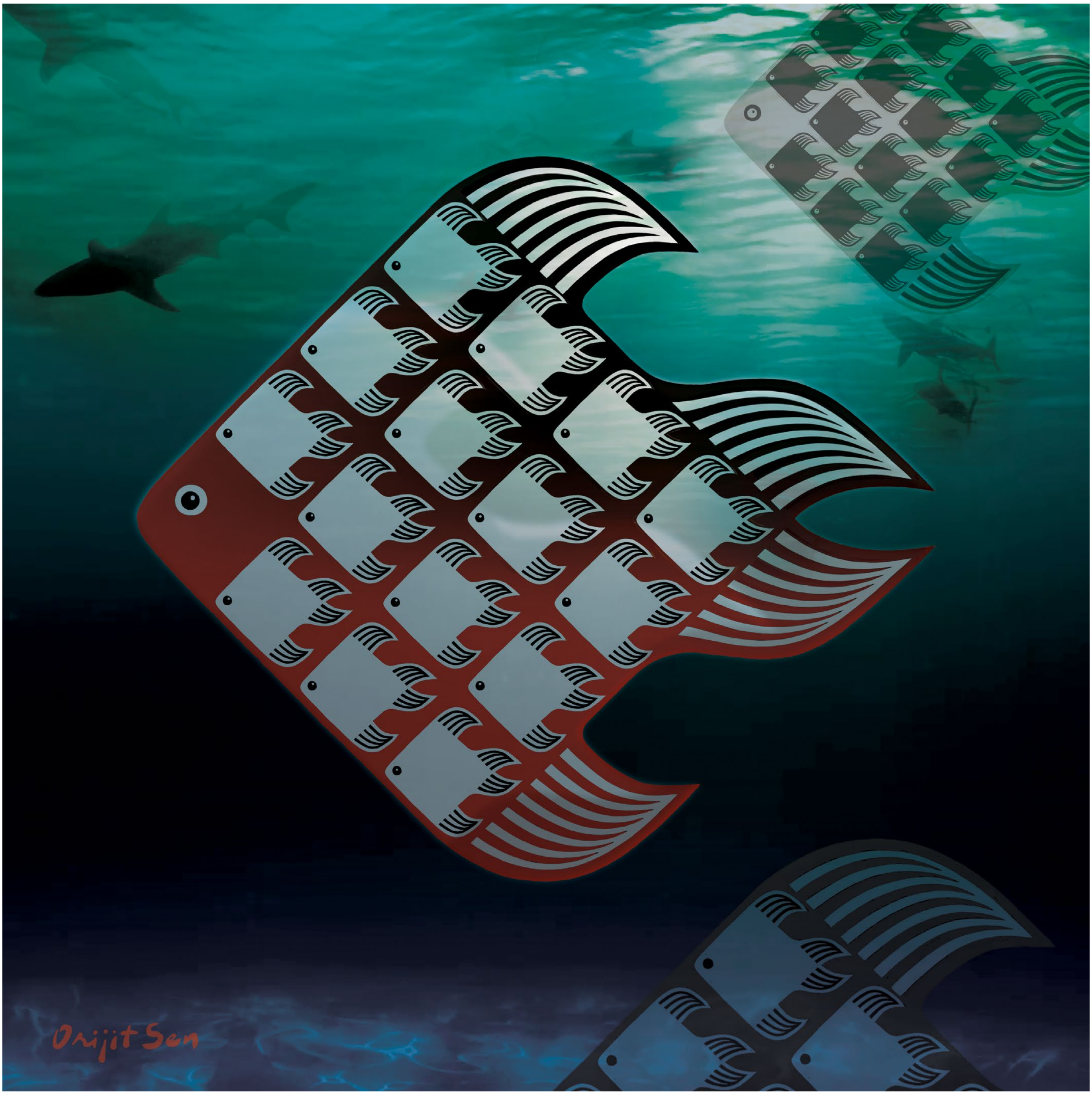
STATE OF POWER 2019

The Power of Public Finance for the Future we Want

Lavinia Steinfort



It may not be a new idea, but the speed with which the Green New Deal has gained traction in the US is remarkable. Potential presidential candidates are already embracing the call and it's firmly on the agenda for the new Congress, with 40 Democratic members demanding a firm plan be drawn up. But what is remarkable is not its popular resonance but the growing political acknowledgement that the government has the power to create the necessary trillions of dollars to not only address the climate crisis but also tackle inequality and transform the economy. It is hard to overstate the significance of this. Before the 2008 financial crisis, the mantra was that there is no alternative (TINA) to rising inequality, corporate greed and environmental destruction. After 2008, the story became that there is no more public money to pay for the alternative so we must rely on private finance. The Green New Deal turns that on its head. As its most famous spokesperson, newly elected Congresswoman Alexandria Ocasio Cortez says, the framework has the potential to replicate 'the Great Society, the moon shot, the civil rights movement of our generation'.[1]

The costs of private finance

The assumption that private finance is the only way to advance social and environmental policy dominates discussions on how to implement the Paris Agreement and the Sustainable Development Goals (SDGs). They frequently ignore how private finance facilitates the extraction of wealth from the public sector to the rich. A 2018 study that re-examines data from the International Monetary Fund (IMF) on global tax evasion by multinational corporations (MNCs), for example, calculates losses to the public sector to be around US$650 billion,[2] disproportionally hitting people in poor (and plundered) countries. Another study suggests that from 1995 to 2015 the City of London cost the UK population £4.5 trillion in resources, skills and investments that benefited the financial sector rather than going to society's more productive activities, as well as the vast wealth that evaporated to the wealthiest in the 2008 financial crisis.[3] The current 'yellow vests' protests in France is another example where people have in part taken to the streets against a so-called 'ecotax' because the Macron government was trying to make its population – rather than the polluters – pay for climate change. This happened after it transferred €14 billion from the poor to the rich and another €41 billion to French companies, including MNCs.[4]

When it is deployed – even for productive or progressive purposes – private finance often ends up being more expensive. The UK National Audit Office calculated that when public projects – for example, the building of schools – are privately financed it is 40 per cent more expensive than using public financing.[5] This is because of the profits that the private investors and shareholders demand; the accounting rules that hide the real costs of private finance until they show up as debt at the end of a project;[6] and the interest rates for borrowing, averaging 7–8 per cent for the private sector and only 3–4 per cent for governments.[7]

Decades of intellectual efforts[8] have tried to make us believe that the public is dependent on private finance and that there are very few public banks left to finance public services and infrastructure, even though these have proven essential to redistribute wealth more evenly across populations. Figures produced by the World Bank and the Organisation for Economic Co-operation and Development (OECD) misrepresent the value of public finance by pretending that public banks have only US$2–5 trillion in assets. With the many trillions that are needed to finance the climate infrastructure needed to combat the climate crisis and bring about energy transition, this amount would be a drop in the ocean. However, research undertaken by Thomas Marois of the School of Oriental and African Studies (SOAS) at the University of London, shows that there are worldwide 693 public banks which own assets worth US$37.72 trillion.[9]

This public money is urgently needed to directly finance the fight against adverse climate change and for democratic, socially-just and renewable energy systems. Most governments, however, limit themselves to incentivising private companies to invest in the transition to renewable energy by supporting privatisation and Public–Private Partnerships (PPPs). Irrespective of countless tax cuts, subsidies and government guarantees, the private sector has shown no significant interest in financing a transition from fossil fuels to renewable energy. With reliance on the private sector, investments in renewables even dropped by 7 per cent in 2017, according to the International Energy Agency.[10] This trend is likely to continue as long as we depend on private finance and market mechanisms.

By contrast, public investment can be made in public systems and services – and with better social and environmental results. A study of 835 cases of public services around the world that either ended privatisation or provided a new public service alternative – of which 311 have been in the energy sector – have shown that privatised corporations don't bring better quality of service, lower prices and more investments. Reclaimed, re-municipalised public services more often perform better, proving that, working together, local authorities, workers and communities are much better equipped than any for-profit company to provide quality services for all.[11]

Pillars of financial transformation

We can draw four conclusions from these insights. First, the resources are there but are being expropriated and wasted by a very small and very privileged corporate minority. Second, private finance is much more expensive than public finance to pay for public services and infrastructure. Third, despite privatisation, there is still a considerable volume of public finance available in the form of public banks. Fourth, as long as public finance is mobilised for private profits, a just transition towards energy democracy will fail.

So, if we know what we are up against and what we need to fight the climate crisis, how do we envisage finance and money systems that make sure we get there?

Our vision for transforming money and finance rests on two pillars. The first is a politics of finance for the 99 per cent in which public and democratically accountable finance is used to invest in water, health care and education as well as ecologically sound industries. The second is a politics of public money that encourages governments to use their democratic power to spend money directly in the real economy. Only this will liberate society from the shackles of debt and financialisation. These new politics can give hope as they provide a base for fleshing out radical but viable proposals and practices of public finance for the future we want. The following real-world alternatives that have withstood neoliberalism from Costa Rica and India to Germany and the US, demonstrate that we can fundamentally transform money and finance so that they foster collective well-being.

Finance for the 99 per cent

Kerala, a state in southwest India with over 31 million inhabitants, shows how a web of more than 11,000 cooperatives, combined with high unionisation, public finance and state support, can succeed in fostering strong human development. Kerala's state-wide Kudumbashree (meaning 'prosperity for the family') programme, which has been running for 20 years, is impressive: 4.3 million economically marginalised women participate in this programme, making up nearly 60 per cent of Kerala's households. These women are organised in neighbourhood collectives that are active in a variety of sectors, from construction and transport to textiles and handicrafts to agro-processing and farming. Its farming sector, in which 320,000 women earn a livelihood, is especially inspiring. Working in small neighbourhood collectives, women choose a piece of land and receive low-interest loans, farm machinery, subsidised seeds, and also training and technical support. This helps them to cultivate rice, fruit and vegetables to feed their families and to sell any surplus in the village markets. This has created 10,000 expert women farmers who are now helping at least five other Indian states to replicate the programme. Ethiopia and South Africa are also in touch with Kerala's state government to learn from this farming model.

The strong driving force behind Kerala's social solidarity economy is the organising power of the Left Democratic Front (LDF), a coalition of various left-wing parties – in and out of power – as well as a flourishing network of people's movements.[12] The LDF, which is currently in government has another ambitious and more recent project to set up a state-wide Co-operative Bank in order to overcome fiscal restraints imposed by Modi central government and to strengthen Kerala's existing 980 co-operative banks and its 1647 agricultural co-operative credit societies. Together they have deposits of more than US$1billion.[13]

Government involvement can, of course, be problematic, as states can also act very undemocratically, if not in an outright authoritarian manner. In other words, public ownership is no guarantee of democracy. In terms of finance, and instead of top-down government, there is a need for a new generation of public and deeply democratic banks. Here we can learn from Costa Rica's Banco Popular. This bank, which is owned by 1.2 million Costa Rican workers – roughly 20 per cent of the population – is possibly the world's most democratic bank, with the Assembly of Workers as its highest governing body, in which 290 workers represent 10 different socio-economic sectors. It lives up to its mission of serving the social and sustainable welfare of the Costa Rican people by effectively financing co-operatives and groups who tend to face financial exclusion, such as workers, peasants and small and medium-sized enterprises (SMEs). To guarantee this, a quarter of the profits go to special funds to meet the needs of those who would not otherwise have access to the banking system.[14]

Its banking decisions are further guided by principles of gender equity, accessibility and environmental responsibility. Banco Popular works together with the regional energy co-operative COOPELESCA, one of four that successfully electrified the rural parts of the country. With a low-cost loan, COOPELESCA fully converted to LED lighting and by 2015 the co-operative offset its carbon footprint through its own renewable energy sources and additional environmental actions. The worker-owned bank also helped COOPELESCA to buy exhausted land to preserve soil, biodiversity and water resources.[15]

There is also much to learn from the German saving banks, or *Sparkassen*. The assets of these 400 local saving banks are nobody's property. The banks are independent from local authorities, which means that they cannot be privatised or have their profits diverted for other purposes. Each bank's board is key to its effectiveness, as it is made up of municipal representatives and other local stakeholders whose duty is to fulfil its binding mandate, which is to stimulate savings, promote financial inclusion and lend to SMEs.

These examples of co-operative and municipal banking practices provide a way to understand how these principles – such as a binding mandate, the involvement of a variety of stakeholders, providing different channels for popular participation – can facilitate democratic public banking. In Belgium, the 'Belfius is ours' platform is looking into these examples in its campaign to democratise Belfius, a privatised bank that was formerly known as Dexia, which was nationalised with its second bail-out in 2011. According to the platform's founders, Frank Vanaerschot and Aline Fares, to democratise Belfius means that it would effectively serve society, which can happen only through a real society-wide discussion about the bank's new public mandate as well as its ownership and governance structures.[16]

Procurement is another source of revenue that can transform local economies, especially since public procurement accounts for 15 to 20 per cent of global GDP.[17] The anchor institution strategy, developed by the US-based Democracy Collaborative, creatively expands the potential of procurement through working with anchor institutions, such as hospitals and universities – because they are asset- and capital-rich and locally rooted – to maximise their social contribution through spending, employing and investing locally. This strategy captures, circulates and builds community wealth. In the US City of Cleveland, it has resulted in the Evergreen Cooperative network, consisting of one of the larger urban greenhouses in the country, a co-operative that installs solar panels and does retrofitting, and a large green laundry company that recently won contracts from Cleveland Clinic, one of the city's anchor institutions. The strategy was also picked up by Preston in the UK. In 2013, seven anchor institutions (including a university, two colleges and the Preston City Council) joined forces to spend £38 million in the city and £292 million in county of Lancashire, where Preston is located. By 2017, new contracts covered school meals to big construction projects, with funds growing to £111 million for the city and £486 million for the region.[18]

Politics of public money

These real-world examples show that we can use transformative state funding, banking and procurement strategies to build strong human development and community wealth from the ground up. Yet, with a global, debt-driven financial system, we need to ask where the money comes from since most new money is issued by commercial banks in the form of private and often high-interest loans, which perpetuates the cycle of reckless economic growth. This type of money can be better understood as *finance*, as it is always based on creating debt and indebting people and entire populations. Even the IMF and the Bank of England now acknowledge that this is how new money is created.[19] That most of our money is based on debt is not a given, it's a political situation that people and political will can change.

In the neoliberal era, as central banks in many rich countries became apparently independent of government,[20] their primary duty was to guarantee price stability and limit inflation by setting interest rates and producing cash (notes and coins). However, governments' continued power to issue debt-free money was shown by the €2.5 trillion that the European Central Bank (ECB) created and the US$3.5 trillion that the Federal Reserve issued after the 2008 financial crisis, a process also known as Quantitative Easing. Although these colossal sums of money should have been spent on fighting ecological collapse, adverse climate change and massive inequality, very little of it reached the productive economy as it was predominantly used to buy up corporate and government bonds. The underlying approach remained tied to *trickle-down economics*, believing that buying bonds would in turn push up share prices resulting in short-term spending and long-term investing in which everyone would prosper. This obviously never happened as only the wealthy own shares and they know they can make more quick money through the financial sector than more productive sectors.[21]

Governments, therefore, still have the power to spend money rather than borrowing it, but the way they have used it has led to more and not less concentration of wealth. The 2008 global financial crisis showed that financial losses are always socialised on the backs of ordinary people through bank bailouts and austerity measures. Given that the public is ultimately liable, this illustrates that even credit or debt-driven money issued by commercial banks should be considered a public good and therefore should be in public hands and democratically controlled.

It will take a 'politics of public money', as opposed to a politics of privatised finance, to stop the growth juggernaut. This can be done only by reasserting the powers to create new money in order to fundamentally democratise our money systems by spending – instead of borrowing – it. And it should be spent, not in the financial markets but to address the many great challenges of our time. With amassed counterpower, we can reclaim the state and create a new monetary model. To give an example of what such a model could look like, Mary Mellor, Emeritus Professor at Northumbria University, argues in her book *Debt or Democracy*[22] that a new model could allow people to democratically and collectively decide the amount of public money that should be created to pay for a basic income and universal basic services. Any publicly created money that turns out to be superfluous would be retrieved through taxes in order to keep inflation in check. But as even the trillions created by central banks after the 2008 crisis did not result in inflation, the fear of hyperinflation seems largely unsubstantiated.[23] Moreover, with so many new goods and services needed to restore our ecosystems, rebuild public services and create meaningful labour, the new money can certainly be put to very good use.

While this proposal may sound too radical to many politicians, the push for creating new public money in the people's interest is gaining significant momentum. The Green New Deal, cited earlier, is one example. It has galvanised public support for massive public investment in order to fight climate change, powered by publicly created money and a new public infrastructure bank.[24] A new public money system could channel grants to foster collective well-being.

Linking our struggles against ecological collapse and all forms of exploitation to these efforts to build radically just money and finance systems is vital to transform our economies. We need to join forces for a new politics of public money and finance for the 99 per cent, to build the organisational strength such as that already shown in Kerala, of progressive unionisation, public finance and state support for thriving co-operative networks. We must demand and develop policies for democratic banking that includes a binding public mandate and a diverse range of local stakeholders on its board. We can transform public procurement and institutions' spending, investment and employment practices to build community wealth. In this way, we can ultimately reclaim our money systems so that they are public and democratically controlled, used to build life-sustaining democratic economies.

This article draws on research from TNI's forthcoming book 'Public Finance for the Future We Want', which highlights the real-world practices and proposals that can transform our money and finance systems for the 99%. The book argues for public money, democratic banking and co-operative networks to make the case for life-sustaining economic democracies.

ABOUT THE AUTHOR

Lavinia Steinfort is a critical geographer and political activist. As a researcher at the Transnational Institute (TNI) she is working on public alternatives such as (re)municipalisation of public services, a just transition towards energy democracy and transforming finance for the 99%. She wrote the chapter, 'The 835 reasons not to sign trade and investment agreements' for the book *Reclaiming Public Services* by the TNI and co-authored the article 'Communal Performativity – A Seed for Change' on the solidarity of Thessaloniki's social movements in the diverse fights against neoliberalism (Antipode, 2017).

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STATE OF POWER 2019

Illustrating Finance

Reflections from State of Power Illustrator, Orijit Sen

Photo credit: Bryan MacCormack

I was approached last year by Nick Buxton of the Transnational Institute and asked if I could create a series of illustrations to accompany essays they were bringing out on the theme of Global Capital and Financial Power. I wanted to say yes, but the theme made me hesitate. The workings of the global financial world was not a subject I knew much about, or had felt inspired to address as an artist before.

However, I'm really glad that I chose to take up the challenge, because working on this project has led me towards developing a whole new visual style to add to my repertoire, and pushed me to come up with new metaphors, visual symbols and ways of representation.

I started by just reading and re-reading the articles, interrogating them from my own perspective and isolating the core ideas I wanted to visualise. Initially this process proved heavy going, but slowly I started to get under the skin of some of the terminology.

It was interesting and challenging to unravel textual language - which often works differently within the domains of different specializations - and then come up with ways to express these specialized ideas through visual language, which is far more (though by no means entirely) universal.

Some essayists - like Saskia Sassen or Brett Scott for example - were remarkably lucid, and provided perfect entry points to understand the larger whole.

Something about the non-physical nature of finance made me want to find a 'mood' or 'setting' that would give the entire series a connected-ness in terms of the feel.

Also, as an artist, light has always fascinated me. The quality of light in an image brings an underlying yet pervasive tone to the work.

And so with the colours. I feel there's something very dystopian about the world of global finance, and that determined the colour palette as well as the generally shadowy and uncertain scenes and environments I created. For contrast, I used humour and a kind of absurdity as well. And for metaphorical play I drew on everything from surrealism to science fiction to corporate charts and algorithmic patterns.

In the art for the Saskia Sassen interview, I even introduced a reference to Shiva Nataraja - the four armed Hindu god that performs the 'Tandav' or 'dance of destruction' at the close of each 'Yug' (era/age) in the Hindu cyclic conception of Time.

I'm really happy with the final results and love the way Evan has finally designed the report and played with elements of the artworks online. All in all, it has been a very satisfying experience.

STATE OF POWER 2019: FINANCE

TNI's eighth flagship State of Power report examines through essays and infographics the varied dimensions and dynamics of financial power, and how popular movements might regain control over money and finance.

For the full report and for previous editions of State of Power visit: **tni.org/stateofpower**

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