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Normalized Financial Wrongdoing: How Re-Regulating Markets Created Risks and Fostered Inequality.

Harland Prechel. Stanford, CA: Stanford University Press, 2021. 384 pages. Cloth, $90.00. ISBN: 9781503602380

Among the most enduring images of the aftermath of North Atlantic Financial Crisis are the interrogations of Goldman Sachs' senior personnel by Senator Carl Levin (D-MI) as part of the 2010 Congressional hearings regarding the events leading up to the 2008 implosion and subsequent bailouts. Levin is visibly incredulous at the revelations of clients being sold securities that are simultaneously the subject of counter-positions taken by the same firm. Equally baffled is chief executive Lloyd Blankfein, who appears genuinely puzzled that Levin does not grasp the daily reality of the financial trader. Yet Blankfein's description of the product sold by Goldman Sachs as "risk," rather than "securities," indicates a profound shift in the perspectives and practices of finance. Rather than relying on Goldman Sachs' expertise in stewarding clients' investments with the utmost care, the prospective customer is implicitly regarded as a fully informed, rational risk-seeker.

In a world where everyone is a rational utility maximizer in possession of complete information, there would be no need for Goldman Sachs or any other provider of financial expertise. Of course, we do not live in such a world. Yet at the levels of both theory and policy, it is assumed that we do, even as our practices reveal fundamental inconsistencies, such as the existence of information asymmetries that allow entities such as Goldman Sachs to apply their business model very profitably, but which are assumed to disappear suddenly once contracts have been signed. Thus, financial service providers are able to wriggle out of commitments that consumer protection laws mandate for others. Imagine purchasing a brand new car, only for it to explode on impact with another vehicle. This is exactly what happened with the infamous Ford Pinto, whose fatal design flaw was known and fully understood by Ford executives, who "callously figured that settling lawsuits would be cheaper than fixing it" (Lee 1998: 399). Milton Friedman (who else?) intervened on behalf of Ford to argue that the value of car safety was a matter only for the buyer and the seller of the car, rather than the public, which was not involved in the transaction. As ever, Friedman ignored the non-existence of perfect information, which would otherwise allow everyone to build their own cars and dispense with Ford's "expertise." Additionally, the risk to

third parties unfortunate enough to be in the wrong place at the wrong time is completely ignored as an "externality." Friedman's "logic" also failed to acknowledge that, "As every business and management text book shows, Ford was engaged in systematic deception" (Whyte 2016: 167). Years later it was this same cynicism that enraged Senator Levin, and drove former Federal Reserve chair Paul Volcker to advocate the outright ban of proprietary trading following the onset of the financial crisis (Suskind 2011: 349).

The exploitation of information asymmetries, and their magnification via the deliberate concealment of decisions and decision-making processes deep within business organizations, form a key component of *Normalized Financial Wrongdoing*. Its analysis is based on what author Harland Prechel calls "organizational political economy" (221), intended to reorient organizational and economic sociology away from their contemporary preoccupations with culture and institutional norms (200), and to restate the primacy of class (11-12). However, the theoretical content of this work draws from an eclectic range of sources, whose compatibility requires greater elaboration and justification than those provided by the author.

Underpinning the analysis is the "seminal insight" of Edwin Sutherland that "differential social structures create opportunities to engage in wrongdoing" (6). The asymmetries involved give rise to "structural holes," where "one part of the structure is changed without a concomitant change in another part, thereby decoupling corporations from third-party oversight" (16). This is important because for Prechel the "crucial component" in "the historically specific social structure of accumulation … is corporate-state relations, not markets, which are always politically embedded in society" (9). Consequently, the driving force behind the "financialization social structure of accumulation" is the political mobilization of capitalist class fractions "to advance a particular set of institutional arrangements that give priority to financialization as a capital accumulation strategy" (17). This has "created a constellation of motives, incentives, and opportunities for managers to advance their interests by engaging in financial malfeasance" (144).

It is in the analysis of corporate power and its exercise that Prechel's book is strongest. Particular emphasis is placed on the use of corporate personhood to hide information in ways that enable insiders to exploit it. The example of Samuel Insull and Middle West Utilities in the early decades of the twentieth century serves to demonstrate the core thesis of Prechel's argument regarding

the exploitation of complexity and confidentiality, such that regulatory authorities, investors, and the public are misled by financial statements in ways that obscure or hide inconvenient truths. Legal changes affecting incorporation and the status of subsidiary companies are explained with respect to their impact on the ability of executives to engage in malfeasance, which is usefully distinguished from criminality because of its incorporation of deceptive behavior that may indeed be legal (15), especially when the boundaries of legality have expanded greatly.

Middle West Utilities collapsed amid the onset of the Great Depression. Legal and Congressional investigations uncovered much wrongdoing and laid the groundwork for extensive legislation that was intended to curb the conflicts of interest and ethical ambiguities that allowed Insull to claim that nothing he had done was illegal, as the courts ultimately agreed (33). Prechel shows how the relaxation of those reforms that began to gather pace during the 1970s effectively restored the legality of Insull-era holding companies and their financial reporting practices via, most significantly, the multilayer subsidiary form that replaced the multidivisional form made famous by Alfred Chandler, following passage of the Tax Reform Act in 1986 (49). This abolished the capital transfer tax that had imposed greater transparency and thereby reduced the opportunities for malfeasance.

Corporate lobbying of state representatives and influencing of public opinion is designated by Prechel as “political capitalism,” in which the wealthy exploit “their capacity to use the resources held in the organizations they control to their own benefit” (43). The concept is more fully elaborated in an earlier work as the capitalist class’s capacity to identify state policies compatible with its goals; its cohesion as a unified actor; and its ability to “exercise control over the state to ensure implementation of these policies” (Prechel 2000: 277).

The assemblage of the theoretical framework, while eclectic, and notwithstanding its author’s claims to the contrary, rests on a normative, Weberian concept of the state as a neutral arbiter, as opposed to a Marxist or Gramscian perspective that would attribute to the state a more explicitly class-oriented agency by definition. This makes references to a “dominant power bloc” (76, 139, 277) confusing, given the “structural hole” concept used to analyze state-corporate relationships and its implicit, normative assumption of power symmetry between both, consistent with a state apparatus that is sufficiently autonomous to act in the public or national interest. This is despite

Prechel's criticism of authors like Greta Krippner and Neil Fligstein for their reliance on an autonomous state concept (8). Yet the concept of structural holes "decoupling corporations from third-party oversight" (16) appears to presume that this oversight is at least to some extent independent of that which it oversees. Indeed, Prechel himself explains that with respect to the economic and financial regulatory structure of the United States, the state is the "principal social control agent in society that seeks to safeguard society from catastrophic financial crisis" (17). The financial crisis was anything but catastrophic for those largely responsible for it, so was this a case of state failure, or is it better understood as the principal social control agent acting decisively in the interests of the dominant class bloc?

Prechel concludes by hoping that Gramscian "organic intellectuals" would emerge to provide the necessary political leadership out of the current morass of legalized financial malfeasance and widening economic inequality. Two such examples are provided: Jesse Jackson (287) and Barack Obama (288). The latter is justified on the grounds that his "presidential campaign moved beyond mediative categories that divide people by developing a broad-based political coalition where the fractured working and middle classes unified and organized as a countervailing power to corporate and upper-class power" (288). Obama's rapid adoption of continuity with respect to financial regulation policy (and even personnel!) following his first presidential election victory, despite having earlier assembled a heavyweight team ready to enact far-reaching reforms only to ditch that team (Suskind 2011), supports Prechel's earlier insistence on the primacy of class interests or "political and economic elites" (8). Those class interests were themselves engaged in a struggle for retention of control of the state apparatus and did much to discredit the "audacity of hope," creating the conditions for the Tea Party movement that led ultimately to the shock nomination and election victories of Donald Trump seven years later. This is entirely absent from Prechel's analysis, as is any acknowledgment of Obama having betrayed so quickly the promises of his campaign.

Prechel cites Richard Edwards' (1977) claim of a "capital-labor accord" integral to the long wave of growth that followed the end of the Second World War and continued until around 1973. In return for ceding to management control over the design and performance of work, labor unions were able to secure for workers rising incomes and living standards. This is controversial (see McIntyre and Hillard 2012; Christensen 2020), not least because the main evidence for such an

accord is the very particular case of the United Auto Workers and the "Treaty of Detroit" (see Lichtenstein 1997). According to sociologist G. William Domhoff, organized labor was treated more leniently during this period for as long as there was non-inflationary growth accompanied by booming profits, and/or its patriotism was needed:

> On many issues some of the most prominent union leaders outside the United Auto Workers, such as George Meany, were to the right of any American leaders except the most militaristic Republicans … the organized labor movement was foursquare behind the [Vietnam] war.
>
> Nixon especially appreciated this support … He publicly thanked 'hard hats' and contrasted their patriotism with the un-American actions of the antiwar protesters. Moreover, at a time when most people still thought of themselves as Democrats, he knew that he was going to need votes from blue-collar workers to win again in 1972. It is these factors that explain the restraint Nixon and big business showed toward labor in the late 1960s and early 1970s (Domhoff 1990: 276–277).

Clyde Barrow's recently published and very timely study of the lumpenproletariat concept in Marxist theory (Barrow 2020) highlights how capitalism's relentless commodification of labor power and intensification of surplus extraction together produce an ever-growing segment of the global population that has tenuous or even non-existent links to the value production process, analogous to the entropic byproducts of energy conversion. While Marx and Engels concentrated most of their analysis on discarded proletarians, they also considered other class-based manifestations of capitalist development's "necessary and inevitable byproduct" of parasitical social groups. These include the finance aristocracy: "a debauched, parasitic, and even criminal class that shares the same lifestyle as the lumpenproletariat, and indeed may even associate with them for criminal purposes—not the least of which is visiting the lumpenproletariat's brothels and opium dens to celebrate their ill-gotten gains" (Barrow 2020: 68, 69; see also Charles Ferguson's 2010 documentary of the financial crisis, *Inside Job*).

Barrow's work offers a much more secure class-based anchoring of the analysis of normalized financial wrongdoing and of the concomitant deterioration of moral standards in business and politics that has alarmed a growing number of concerned defenders of "democratic capitalism"

(for example, Bogle 2005; Martin 2011; Foroohar 2016). However, by pinning his hopes on what might be called "Democratic Party capitalism," Prechel undermines the class perspective he claims to be intent on restoring (221). This is unfortunate because the book is otherwise strongest in shedding light on the ways in which corporate organizational structure, backed by law and compliant regulation, facilitates the parasitism that continues to corrode the internal cohesion of the US polity. His detailed case study of Enron's transformation from an energy supplier to an "asset-lite" trading company encapsulates the slow-motion liquidation that has enriched decreasing numbers of executives and investors at the expense of the rest of the economy (see also Crotty 2003). Read together with other studies of the North Atlantic Financial Crisis, shareholder value maximization, and deindustrialization, *Normalized Financial Wrongdoing* is a useful addition to an ever-expanding literature, but its theoretically muddled approach and consequent structural holes (to coin a phrase) render many of its punches pulled.

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