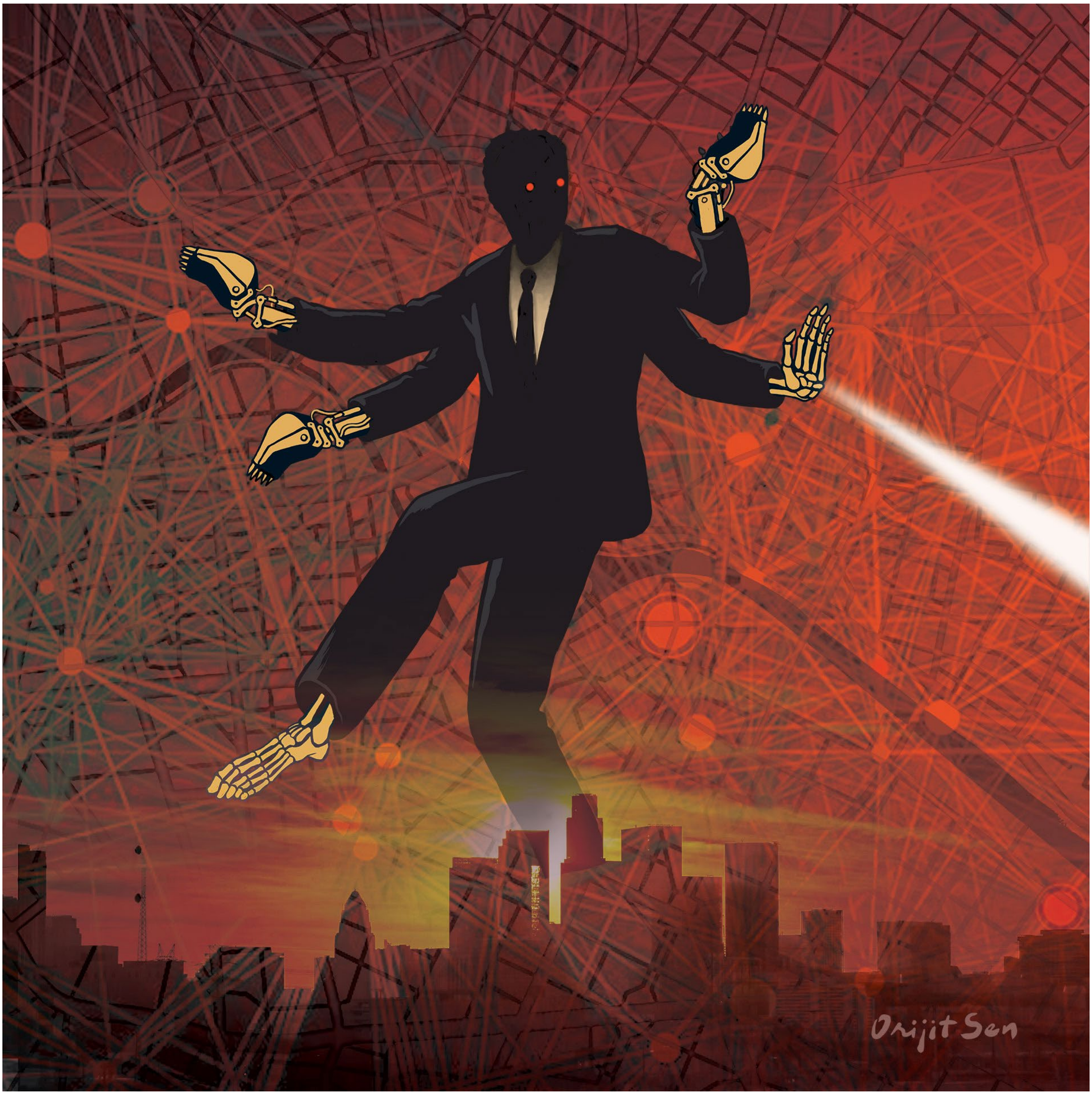
STATE OF POWER 2019

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.

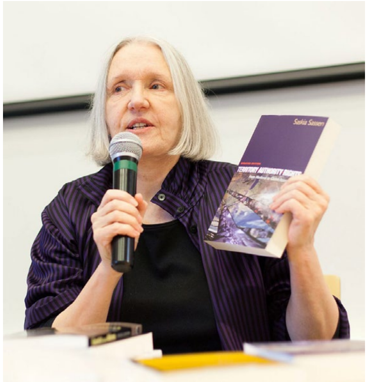
We can learn from experiences such as the Dutch who saw the problems with pension fund abuses, did their homework and recovered half their losses.

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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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.

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