Financialised Elites and the Changing Nature of Finance Capitalism:
Investment Bankers in London’s Financial District

SARAH HALL
School of Geography, University of Nottingham

This paper uses the financial and economic downturn widely dated back to summer 2007 to develop understandings of financial elites in London’s international financial district. Drawing on empirical research conducted into fee earning investment bankers and social scientific research into elites and power relations, I focus on the different modalities of power associated with the changing nature of these ‘financialised elites’. I argue that in contrast to earlier generations of financiers, the power of contemporary investment bankers emerges through their role choreographing transnational networks of financial actors associated with securitised and structured products rather than being purely read off their social or education background. I suggest that these networked forms of power relation are significant because, on the one hand, they have prevented investment bankers distancing themselves from the ongoing turbulence and uncertainty within the international financial system. Meanwhile, on the other hand, the ability of investment bankers to (re)produce such networks indicates that suggestions of the demise of ‘financialised elites’ in the wake of the global credit crunch may be too hasty as previous financial crises demonstrate the considerable ability of ‘financialised elites’ to seize moments of conjunctural opportunity to reinvent themselves through new financial products and organisations.

KEY WORDS Elites, Financialisation, Power, London’s financial district, Credit crunch, Investment bankers

Introduction

Financial markets and institutions have increasingly dominated the political economy of the UK in recent years. Facilitated initially by the move to floating exchange rates following the collapse of the Bretton Woods agreement and the deregulatory changes collectively known as ‘Big Bang’ in 1986, until the summer of 2007 the growth of the sector was impressive. For example, estimates suggest that 354,000 individuals were employed in the UK wholesale financial sector in 2006 (FSSC 2007) contributing 4.8 per cent to the UK GDP (Oxford Economics 2008). Policymakers and practitioners celebrated what they perceived to be the benefits of such growth by emphasising the value of the City of London for UK Plc in terms

E-mail address: sarah.hall@nottingham.ac.uk

© 2009 the Editors and W. S. Maney & Son Ltd
DOI: 10.1179/102452909X417042
of outputs, productivity and employment opportunities (see Oxford Economic Forecasting 2005). In contrast, critical social scientists across a range of disciplines have developed the concept of ‘financialisation’ to describe and explain these processes, emphasising the deleterious consequences of such developments for corporations and households as they become tied into ever closer relationships with the international financial system (see for example Froud et al. 2006; Langley 2007).

However, following at least 15 years of seemingly limitless growth, the sub-prime mortgage crisis that started in the US and the associated global credit crunch that is widely dated back to the summer of 2007 have stalled the expansion of financial services, triggering recession in the financial services sector and the wider economy. This downturn has been particularly acute in economies that were heavily reliant on financial services, including the UK. Here, high street banks Northern Rock and Bradford and Bingley were nationalised in February and September 2008, respectively. Meanwhile, confidence in the wholesale financial sector has been severely damaged following the collapse of the investment bank Lehman Brothers in the US in September 2008. Furthermore, in October 2008, the UK government announced a ‘bail-out’ package for eight high street banks. Under this deal, these banks were collectively able to access £400 billion in additional capital, subject to changes in their business models which included signing agreements to limit their executive pay and bonuses; increasing their capital reserves; and issuing preference shares bought by the Treasury. Despite these early interventions, the UK’s financial services sector has continued to restrict credit and, in an effort to manage costs, both retail and wholesale financial institutions have announced significant job cuts (The Times 2008). In response, in January 2009, the government announced a package of further support for banks aimed at increasing credit liquidity including powers for the Bank of England to make loans of up to £50 billion directly to businesses (Financial Times 2009). These developments clearly raise a number of important questions concerning the sustainability and desirability of ‘finance driven capitalism’ (Pike 2006). However, as Peck (2003) has argued in relation to the bursting of the dot.com bubble in the early 2000s, periods of economic turbulence also offer the opportunity to interrogate the causes of the upheaval itself and help to reveal the processes and practices that underlay the preceding period of economic growth. In this paper, following Peck (ibid.), I use the financial crisis in the UK that began in the summer of 2007 to develop understandings of one central group of actors in both the rapid growth of financial services from the early 1990s onwards and the ensuing financial crisis – investment bankers in London’s financial district.

Investment bankers, together with corporate lawyers and partners in private equity and hedge funds, make up what Folkman et al. (2007) term ‘capital market intermediaries’ – an elite group that has assumed an increasingly powerful position within financially dominated capitalism. Collectively, as Folkman et al. (2007) argue, these actors have added work in capital markets to their more established role servicing the financial requirements of large firms and undertaking and promoting corporate strategy changes (notably mergers and acquisitions). In so doing, they have enjoyed significant personal remuneration, linking their salary structures and bonuses to the performance of their employing firms (see Froud & Williams 2007 on the case of private equity). However, beyond the work of Folkman et al. (2007) and the insightful narratives provided by former members of these elite networks such as Augar (2001, 2005) and Golding (2002), comparatively little attention has been paid to how such elites both produce and are reproduced through processes of financialisation.

In response, in this paper I take inspiration from earlier studies of elites beyond the case of finance to focus on the ways in which investment bankers have attained the position
of powerful, ‘financialised elites’ in London. These elites were both central architects of processes of financialisation that dominated financial services in the 1990s and early 2000s and yet now find themselves having to reinvent themselves as they come to terms with the ongoing credit crunch. In particular, I draw on the work of Allen (2003) to explore both the similarities and differences between investment bankers and earlier generations of financial elites in London in terms of these power relations. I argue that in the initial phase of investment banking in London following Big Bang, investment bankers, in a similar vein to merchant bankers before them, were positioned as powerful elites due in large part to their shared social and educational background. Allen (2003), following Latour (1986), terms this a ‘centred’ version of power. Understandings of this modality of power have been developed through work on ‘gentlemanly capitalism’ and ‘old boys’ networks’ that also emphasise the highly gendered nature of these financial elites (McDowell 1997; Michie 1992). However, from the mid- to late 1990s onwards, whilst the gendered nature of investment banking has continued (Jones 1998), investment bankers have developed a far more subtle and networked position as powerful elites in processes of financialisation. The power of these investment bankers cannot be read off their social or educational background. Rather, their power increasingly emerged from their working practices choreographing transnational socio-technical networks associated with securitised and structured financial products. For these investment banking elites, power is understood as being inseparable from its consequences – what Allen (2003) terms ‘power as an immanent affair’.

Theoretically, these more recent, networked versions of power are important as they help to develop work on the ‘social studies of finance’ (MacKenzie 2006) by emphasising the agency of financial elites within the socio-technical networks that make up contemporary financial services. Meanwhile, politically I argue that these networked modalities of power are significant in understanding the future trajectories of investment bankers as they seek to come to terms with the ongoing credit crunch. In particular, previous periods of economic and financial turbulence suggest that the more networked power relations associated with contemporary investment bankers in London are, on the one hand, likely to make it difficult for investment bankers to distance themselves from the difficulties currently being experienced in the financial services industry globally. On the other hand, their ability to manage and choreograph networks of financial and economic actors also suggests that, going forward, they will find new roles for themselves at the heart of London’s continually evolving international financial centre.

I develop this argument over four further sections. The following section considers the role of power in elite studies more generally before focusing on power relations and financial elites. The third section uses original empirical material to position investment bankers within this conceptual framework. Next, I consider the consequences of more networked forms of power utilised by contemporary investment bankers for their response to the current financial crisis, drawing on research into previous financial crises. I conclude by considering the implications of this argument for understandings of elites in processes of financialisation more generally.

Elites, Power and Financialisation

Despite the continued importance of elites within a range of socio-economic processes, Savage and Williams (2008) argue that ‘elite studies’ became less academically fashionable
from the middle of the twentieth century onwards. Nevertheless, a relatively small, yet highly influential number of studies were conducted that typically take one dimension of elites as their primary focus. For example, Bourdieu (1996) developed an innovative body of work on elites, focusing on a narrow group of cultural elites rather than the economic elites that form the focus of this paper. Building on this work, Savage and Williams (2008) argue that one important way of reinvigorating ‘elite studies’, is to consider in more detail what elites do and how this allows them to attain their powerful positions in processes of economic change (for an example of this approach, see Godechot 2008). For Savage and Williams (2008) an emphasis on the practices of elites contrasts with work that rightly asserts the transnational and global qualities of contemporary elites and yet does not reveal the complex processes through which elites develop and maintain their position (see, for example, Castells 1996; Sklair 2001).

Attending to the detail of elites’ habitual working activities is particularly important in the case of financial elites as both the international financial system and their own working practices have changed significantly over time. For example, in London’s financial district, the continued importance of contemporary elites builds on a well-established lineage of financial elites in the City. Most notably, the merchant banking families that contributed to the development of London as a financial centre servicing the international trade associated with the British Empire in the nineteenth and early twentieth centuries in effect formed the financial ‘arm’ of the British establishment (Cassis 1985; Lisle-Williams 1984; Pryke 1991). These familial dynasties, built around familiar names such as Rothschild and Cazenove, formed what has been termed ‘gentlemanly capitalism’ in which trust and confidence between financiers was read off their shared social backgrounds, most commonly at Oxbridge and a small number of public schools (Kynaston 2001).

More recently, the changing fortunes of financial elites in London have increasingly been shaped by the growing influence of US firms and working practices. Of particular importance are the de-regulatory changes associated with Big Bang in 1986. These meant that US investment banks were able to increase their London operations as restrictions on the ownership of London Stock Exchange firms were relaxed, allowing banks to purchase them for the first time. As a result, between 1983 and 1986, the majority of leading securities firms were bought by foreign parties including US investment banks (Roberts & Kynaston 2001). Using their newly increased market share, American, and later, European investment banks squeezed UK merchant banks that had been at the heart of ‘gentlemanly capitalism’. As a result, from the mid-1980s onwards, almost all UK merchant banks were purchased by overseas competitors. Initially, this change in ownership did not result in significant changes to financial elites’ working practices as US investment banks sought to develop the established personal networks of merchant bankers that were central to the merchant banking business model (Golding 2002; Roberts & Kynaston 2001).

However, from the mid-1990s onwards, investment banking broadened beyond a merchant banking-style focus on providing advice to corporate clients and supporting mergers and acquisitions activities to include a range of products and services, particularly derivatives and securities (IFSL 2008). These developments raise a number of issues concerning the changing nature, backgrounds and working practices of financial elites such as their remuneration structures and the role of education in facilitating entry into elite networks (see, for example, Froud and Williams 2007; Froud et al. 2007). In spite of this, the changing nature of investment banking has received less academic attention than the earlier demise of merchant banking. In response, in this paper I concentrate on the relationship
between the changes to the investment banking business model and the modalities of power used by investment bankers to assume the position of powerful financial elites.

Power and Financial Elites

As noted above, one of the common themes in much elite research is the use of power to define elites. For example, Sklair (2001) identifies a group of elites that he terms the transnational capitalist class (TCC) made up of individuals working in the upper echelons of transnational corporations, international politicians and bureaucrats as well as those working in the media. In defining this group, Sklair (ibid.) uses Domhoff’s (1996) class dominance theory to emphasise the fact the TCC derives ‘long-term power . . . from control of economic resources’ (p. 14, emphasis added). Whilst Domhoff (1996) emphasises the national scale, Sklair (2001) extends these insights by adopting a transnational scale of analysis to explore how the TCC control the different forms of capital that drive contemporary processes of globalisation. Van der Pijl (1984, 2004) also develops understandings of the transnational nature of powerful elites through his analysis of the formation and practices of trans-Atlantic elites associated with the rise of neo-liberal orthodoxies. Meanwhile, other studies have emphasised how elites are rendered powerful by virtue of their position within wider structures of capitalist accumulation (see, for example, Scott 1997). However, whilst scholars have used power as part of their wider definitions of elites, in this paper I follow recent calls to consider the different ways in which power is exercised (Allen 2003) in order to develop understandings of the different types of power used by financial elites.

Allen’s work is instructive since it explicitly draws attention to the different forms power takes and the variable spatial reaches (geographies) associated with this. For the purposes of my argument in this paper, two types or modalities of power as synthesised by Allen are particularly important. The first is a ‘centred’ form of power in a Latourian (1986) sense. This is an instrumental form of power that is held by certain groups and used by them over other groups or individuals. As such, in this version of power, it is possible to conceive of power as a ‘thing’ that is possessed by individuals who are deemed powerful by others by virtue of their ‘holding’ power. Allen (2003) argues that this form of power can be thought of as ‘power as capacity’ such that individuals or organisations can hold power and yet may or may not choose to use it. Even when individuals do not use their power, in this version of power, they are still widely regarded as being powerful. In the case of financial services, this type of power relationship dominated the ‘old boy networks’ that prevailed in London up until at least the deregulatory changes of 1986. Individuals in this network, largely by virtue of their social and educational background, were widely acknowledged by financiers, clients and politicians as being powerful financial elites. Moreover, this relative position of power within the UK political economy was not necessarily dependent on them actually exercising their power through merchant banking transactions.

However, the changing nature of financial elites from the late 1980s onwards highlights the need to consider the different ways in which financial elites render themselves powerful. Here, a second type of power identified by Allen (ibid.) is instructive. Allen terms this ‘power through mobilization’, arguing that this represents a much more subtle version of power that flows through networks, thereby focusing attention on ‘how power is produced in and through social interaction’ (p. 40). This approach to power is heavily influenced by the work of Castells (1996), Giddens (1977) and Foucault (1982) and points to the ways in which
power is not a ‘thing’ that can be held. Rather power emerges through, and is inseparable from, social and economic practices that may be both local and non-local – what Allen (2003) terms ‘power as an immanent affair’. In so doing, this approach to power provides one way of incorporating a post-structuralist approach to power into the study of elites.

In the case of financial elites, this second approach to power suggests that rather than certain individuals ‘accruing’ power as a result of their social and associated educational background, power emerges through financial practice. Such an approach to power relations resonates with recent work on financial services within the inter-disciplinary ‘social studies of finance’. Influenced by actor network theory, this literature aims to reveal how financial markets are socially, culturally and materially constituted or ‘performed’ into being (for a review of this approach see MacKenzie et al. 2007). Research has emphasised how such ‘performances’ involve networks of computer screens, technological infra-structures and financial economic theories that are co-constituted by the financial markets of which they are a part (see Knorr Cetina & Brueggar 2002; MacKenzie 2006).

In so doing, this literature adopts a post-structuralist approach to power similar to what Allen (2003) terms ‘power through mobilization’ in which the relative power of different actors, as well as the power of financial services more generally, emerges through the ‘performance’ of financial markets. However, in privileging the diversity of non-human actors involved in such performances, this literature pays less attention to the agency of financial elites in ‘performing’ financial markets. In order to address this lacuna, in this paper I use the metaphor of ‘choreographing’ financial services networks to (re)emphasise the role of individual financiers within such networks. I argue that this role is increasingly important in positioning investment bankers as powerful financial elites as the changing nature of investment banking has been associated with changes in the modalities of power for investment bankers from one based primarily around ‘power as capacity’ to ‘power through mobilization’ (ibid.). I then consider the implications of this as investment bankers negotiate the fallout from the ongoing global credit crunch.

Methodology
The research reported below draws on two sets of semi-structured corporate interviews with investment bankers working in London’s financial district. The first set comprises 36 interviews conducted between 2002 and 2003 and the second set comprises eighteen interviews conducted with investment bankers at various stages of their careers between January 2006 and March 2007. The timing of these interviews is significant. The first set was conducted in the wake of the bursting of the dot.com bubble and the accounting scandals that were predominately focused on corporate America, which in effect represent one of the early challenges to the power of newly emerging ‘capital market intermediaries’ (Folkman et al. 2007). Meanwhile, the second set was conducted at the peak of ‘finance driven capitalism’ (Pike 2006) but before the full consequences of the global credit crunch had begun to unfold. In both cases, interviews lasted between one and three hours and were fully transcribed. They were then analysed iteratively with empirical material informing theoretical thinking and vice versa. Data is presented anonymously throughout this paper to prevent greater significance being attached to the responses of those individuals who did not request anonymity during the interviews. This interview data was triangulated with analysis of secondary data from the corporate websites of investment banks; reports of financial institutions; and relevant specialist and mainstream press such as The Banker, The Financial Times and Bloomberg.
Investment Bankers, Capital Market Intermediaries and Financialised Elites

Significant academic attention has been paid to the rise of investment banking at the expense of merchant banking in London. However, it is the less fully documented recent changes within investment banking that in many ways position investment bankers at the heart of processes of financialisation and the turmoil within the international financial system since summer 2007. Therefore, in what follows I outline the changing organisational structures of investment banks in London before turning to the associated changing modalities of power exercised by investment bankers as financialised elites.

Financialisation and Investment Banking in London

In terms of financial services provision, the revenue-raising activities of investment banks are typically divided into five areas: corporate finance, securities trading, investment management, loan arrangement and foreign exchange trading (Clarke 2000; Valdez 2001). During the initial period of growth in investment banking in London in the 1990s, particular importance was attached to corporate finance activities, most notably mergers and acquisitions (M&A) work. Investment banks also made loans to their clients to support such restructurings and raise finance for their clients, particularly through the underwriting of share issues. In this style of investment banking, revenue was generated by charging fees for the M&A advice offered, typically at 1.5 per cent of the value of the deal and related activities of equity and debt restructuring (Folkman et al. 2007). As indicated above, this approach to investment banking resonates with earlier versions of merchant banking (Golding 2003).

However, by the time I conducted the second set of interviews drawn on in this paper, this established investment banking business model had come under increasing pressure as M&A became less profitable. A significant driver of this change was the ways in which fees on each transaction were increasingly being split between a range of different advisors including combinations of several investment banks and newer organisations such as corporate finance boutiques (see Hall 2007a). Consequently, during the 2000s, the investment banking business model evolved with many investment banks increasingly turning to newer, high margin activities, particularly ‘trading and principal investment where the investment bankers typically manages the investment bank’s own account dealing in even more arcane coupons or undertakes asset management’ (Folkman et al. 2007: 563). As a result, statistics suggest that whilst mergers and acquisitions work remains important in the City, accounting for 51 per cent of total fee income in 2007, equity underwriting accounts for 30 per cent of income with the remainder largely made up of fixed income underwriting (IFSL 2008).

Folkman et al. (2007) argue that these developments mean that investment bankers can be understood as ‘capital market intermediaries’ or what I term in this paper ‘financialised elites’. These are powerful individuals who play a significant role in shaping processes of financialisation by not simply servicing the financial and banking requirements of large corporations but also increasingly by operating in financial markets in their own right. Of particular importance for my argument are the different ways in which these ‘financialised elites’ have attained their powerful position in the international financial system as compared to previous incarnations of financial elites.
Changing Modalities of Power and Financialised Investment Banking Elites

The earlier version of investment banking that dominated in London in the late 1980s and early 1990s was dominated by a modality of power amongst investment banking that most closely resembled a centred form of ‘power as capacity’ (Allen 2003). Investment bankers were widely understood as ‘holding’ power by their corporate clients and other financiers in ways that resembled the power relations that had dominated in earlier versions of merchant banking. Two dimensions of this centred version of power stand out as being particularly significant. First, it reflects the continued use of educational and social background in securing employment in investment banks at the time. As Jones (1998) shows, although recruitment was from a broader pool than the small number of public schools and Oxbridge that had prevailed in merchant banking hiring practices, investment banks were still highly selective in the institutions they recruited from. Their focus remained primarily on a select group within the Russell Group of universities in addition to Oxford and Cambridge. As such, the relative power of investment bankers within the international financial system could be read off these personal histories rather than necessarily emerging through their investment banking working practices. Comments such as the following from a research participant who started his investment banking career in the late 1980s were indicative of the dominance of this form of power relation at the time:

We were almost still like the establishment part of the City [of London]. We were seen as sort of more professional financiers than people like traders basically because of our backgrounds and this was maintained largely regardless of what you went on to do in your professional life.

(Investment bank director, March 2003)

Second, investment bankers were also understood to be holding ‘power’ in the 1990s because of their control and ownership in-house of the intellectual and capital resources they needed to undertake their primary function – M&A advice, related equity and debt restructuring. This echoes research on elites more generally that positions them as powerful by virtue of their access to and ability to control economic resources (Sklair 2001). In the case of M&A advice, investment banks relied on the knowledge and expertise of their employees during the research or ‘origination’ phase of any given transaction and were in a strong position to raise capital for their clients to support such deals during the ‘execution’ phase, particularly through the use of capital markets, as the following research participant summarised:

We were offering a relatively straightforward service to corporates, largely conducted in house – we had the expertise to come up with the ideas and could access the capital to execute the deal.

(Investment bank president, February 2003)

Indeed, it was this access to the economic resources necessary to undertake M&A work within investment banks that meant that smaller M&A providers such as corporate finance boutiques began by focusing solely on the origination and advisory aspects of corporate finance (Hall 2007a).

However, by the 2000s my research suggests that investment bankers secured their position as financialised elites by adopting forms of ‘power through mobilization’ with immanent qualities rather than through forms of ‘power as capacity’ (Allen 2003) as had previously dominated. In particular, investment bankers’ position as central architects of
processes of financialisation was based on their ability to mobilise, choreograph and control networks of different types of financial actors in offering a complex range of financial services to corporate clients. One of the most basic illustrations of this is through the changing nature of M&A itself. Here, rather than an individual bank offering its services unilaterally to a corporate client, M&A now more typically involves co-ordinating a network of financial institutions including not only investment banks but also other financial institutions such as corporate finance boutiques and hedge funds as well as related professional services, notably corporate law firms, in the delivery of increasingly complex financial advice and related solutions to client firms (Folkman et al. 2007).

More recently, the emblematic example of this growing form of ‘power through mobilization’ within investment banking is through the involvement of investment bankers in the provision of ‘structured finance’ that underpins the processes of securitisation that have received considerable attention due to their alleged central role in the ongoing credit crunch. Securitisation has developed to include assets ranging from personal mortgages to the technologies associated with everyday life including hospitals, schools and urban infrastructure (Leyshon & Thrift 2007). For example in Europe, the annual value of securitisation issuance in 2006 was $576 billion, up from $38 billion in 1996 but still relatively small compared to the heartland of securitisation, the US, where the equivalent figures are $3187 in 2006 and $685 in 1996 (Erturk et al. 2008). Langley (2006: 283) argues that securitisation in terms of mortgage finance can be understood as a ‘practice of “bundling” together a stream of future obligations arising from mortgage repayments to provide the basis for the issue of, and the payment of principal and interest on securities’. Such activities rely on individuals, often qualified to PhD level in numerate subjects such as mathematics and physics, undertaking what Pryke and Allen (2000) term ‘socio-financial engineering’ to complex created structured financial products that offer the allure of high potential margins at a corporate level and personal remuneration through bonuses at the individual level.

The advantages for the banks that facilitate securitisation lies in their ability to use securitised finance to meet the borrowing demands of their corporate clients without compromising their capital requirements, as set out in international banking regulations (Leyshon & Thrift 2007). Meanwhile, for investment bankers, securitised finance means that they are at the centre of international networks of financial institutions, markets, regulators and customers. These networks also comprise a range of non-human actors as identified in the ‘social studies of finance’ literature, such as the financial theories that underpin structured financial products and the technological infrastructure of computers and communications technology. The power of investment bankers emerges through the successful choreographing of such networks, rather than being simply read off their social or educational background. My research participants reflected widely on the resulting changing nature of their role within the international financial system with comments such as the following being indicative:

We’re not held up in the same regard that we used to be. I think there was a time when if you said you were an investment banker, people sat up and listened. Now, if you want to be heard it’s not about where you’ve been to school or university but about how you get things done by organising a whole set of people under pressure to deliver high risk but high potential margin products – colleagues here [in the bank], private equity guys, hedge funds, traders, clients, regulators, lawyers – it’s a different world really.

(Investment bank vice president, January 2007)
Nevertheless, it is important not to fall into a simple binary distinction between early investment bankers in London relying on ‘power as capacity’ on the one hand and more recent investment bankers relying on ‘power through mobilization’ on the other. As Allen (2003: 169) has argued, contemporary investment bankers still draw on the established nature of their industry when legitimating themselves:

Those who act as an authority in the City draw upon wider networks of expertise to bolster their credibility in the eyes of others and, in so doing, draw upon the trappings of past and present resources to confer legitimacy.

This combination of different modalities of power is important because choreographing socio-technical networks within recent investment banking business models is not necessarily a linear, predictable, pre-thought out process that will inevitably lead to greater personal and corporate remuneration. Rather, Engelen et al. (2008) have developed the metaphor of ‘bricolage’ to understand the long chains of activities (often not intuitively linked) that are tentatively and precariously choreographed by financial elites in processes of financial innovation. Within such practices, as Allen (2003) suggests, the ability to draw on forms of ‘power as capacity’ is an important way of legitimising the role of investment bankers in attempting to successfully choreography such networks.

Moreover, Engelen et al. (2008) emphasise the importance of conjunctural, meso-level conditions that help facilitate the choreographing of such socio-technical networks. In this respect, the conducive economic environment of low interest rates and low inflation facilitated securitisation as one of the prime drivers for the growing power of finance from the late 1990s onwards, with individual financialised elites such as investment bankers using their powerful role choreographing such processes to benefit personally in the form of sizeable salary bonuses. However, whilst such networks were largely developed below the media and regulatory radar in the 2000s, they found themselves under growing scrutiny as the favourable conjunctural meso-economic environment changed and the global credit crunch unravelled from the summer of 2007 onwards. In this respect, the specific modalities of power used by investment bankers in creating such networks are likely to have a significant impact on the ways in which they deal with the fallout from the credit crunch.

Networked Power and the Role of Investment Bankers in the Global Credit Crunch

From the early 2000s until the summer of 2007, the business model of investment banks based around ‘power as mobilization’ delivered significant profits and returns for investment banks and the investment bankers at their heart. For example, reflecting almost ten years of significant growth, investment banking fee income globally reached $84.4 billion (IFSL 2008) before the full effects of the credit crunch began to be felt. However, this growth and the networks of power amongst financiers around which it was built began to unravel from 2007 onwards. Initially, the most important trigger was the marked changes in the US domestic mortgage market. Here, falling house prices and interest rate rises meant that many ‘subprime’ mortgage borrowers began to default on their mortgage repayments. In turn, these defaults meant that related asset-backed securities and forms of structured investment vehicles were downgraded, and wholesale banks became increasingly risk averse in their attitudes to lending. This produced a broader tightening of liquidity in mortgage and other debt markets, resulting in the use of the term global credit crunch to describe the broader constraints on lending and borrowing in the financial system.
The second stage in this unfolding financial crisis focused on the implications of the tightening of liquidity for both wholesale and retail financial institutions. In this respect, during early and mid-2008 the share price of these institutions fell dramatically as they began to reveal their exposure to defaults in the sub-prime market through structured finance products or what has become known as ‘toxic debt’. This process of declining confidence in wholesale institutions accelerated when the US investment bank Lehman Brothers filed for bankruptcy in September 2008. Following this, a number of wholesale financial institutions were either taken over by, or took over, retail banks in order to access their customer deposits including Merrill Lynch and JPMorgan.

The effects of these developments in the UK have been significant. For example, Northern Rock was nationalised in February 2008 due in large part to its comparative reliance on capital markets for its mortgage lending compared to its rivals. Meanwhile, during 2008 the government became the majority shareholder in a number of other retail banks including the newly merged HBOS–Lloyds TSB. Moreover, investment banks operating in London began reporting record write-downs in what the financial journalist, Robert Peston, termed a ‘City tsunami’ (BBC 2007). Table 1 provides a summary of the global write-downs and credit losses for a selected number of international financial institutions. Of particular note in terms of London is the Royal Bank of Scotland. Previously, this had been one of the most successful fully integrated banks in the UK but in August 2008 it revealed that it had made a pre-tax loss of £691 billion, the second largest banking loss in British banking history, with credit market write downs contributing £5.9 billion to that total. Total losses globally for banks from the credit crunch have been estimated at $379 billion (Bloomberg 2008). In November 2008, the UK government paid £15 billion for a majority stake in RBS in addition to buying £5 billion of preference shares in the bank. Despite these efforts, by January 2009 there was increased speculation that the bank may need to be fully nationalised.

**Table 1**

Selected international bank losses and write downs following the global credit crunch ($ billion), January 2007–May 2008

<table>
<thead>
<tr>
<th>Financial organisation</th>
<th>Writedowns</th>
<th>Credit loss</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup</td>
<td>37.3</td>
<td>5.6</td>
<td>42.9</td>
</tr>
<tr>
<td>UBS</td>
<td>38.2</td>
<td>38.2</td>
<td></td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>37</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>HSBC</td>
<td>6.9</td>
<td>12.6</td>
<td>19.5</td>
</tr>
<tr>
<td>IKB Deutsche</td>
<td>16</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>15.2</td>
<td>15.2</td>
<td></td>
</tr>
<tr>
<td>Bank of America</td>
<td>9.2</td>
<td>5.7</td>
<td>14.9</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>12.6</td>
<td>12.6</td>
<td></td>
</tr>
<tr>
<td>JPMorgan Chase</td>
<td>5.5</td>
<td>4.2</td>
<td>9.7</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>9.5</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>7.7</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>Barclays</td>
<td>5.2</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>2.1</td>
<td>0.6</td>
<td>2.7</td>
</tr>
</tbody>
</table>

*Source: Bloomberg (2008).*
The ramifications of this ongoing credit crunch clearly raise a number of questions concerning the operation of contemporary financial services and the limitations of heavily financialised economies such as the UK, not least in terms of the significant job losses that have been made as a result (The Times 2008). Important questions also remain concerning the role of particular socio-technical devices in perpetuating the crisis in the first place. However, in this paper I focus on how they reveal the limitations of the distributed power networks made up of financialised elites, including investment bankers, which had dominated financial services provision in the run up to the events of the summer of 2007. In particular, it became apparent that whilst financialised elites had been rewarding themselves handsomely throughout the boom years of the 2007s through a significant bonus culture, this focus on their own interests had been accompanied by a lack of understanding of the system or financial networks as a whole. This example of ‘bricolage’ (Engelen et al. 2008) was frequently commented upon by my research participants even before the full extent of the credit crunch was known, as the following example demonstrates:

I don’t think many people fully comprehend the complexity or the sheer monetary volume they are dealing with now. You’re just so remote from it that all you can do is focus on your area of expertise.

(Investment bank associate, December 2006)

In what follows, I use research into previous financial crises to reflect on the consequences of the nature of financialised networks choreographed by investment bankers for the future trajectories of financialised elites.

Financial Crises, Financialised Elites and the Consequences of ‘Power through Mobilisation’

The global credit crunch is the latest in a steady stream of financial scandals and periods of turbulence that have impacted upon London’s financial district and the international financial system more generally. These include the collapse of one of the oldest English financial institutions – Barings Bank (Tickell 1996); the pensions scandal associated with Robert Maxwell (Clark 1997); the Asian financial crisis of 1997 (Beaverstock & Doel 2001); and the fallout from the bursting of the dot.com bubble and accounting scandals of the early 2000s (Hall 2007b). A common survival strategy adopted by financial elites and financial institutions in these crises has been to distance themselves either materially or discursively from the perceived or actual cause of the financial turbulence. In some cases, this has involved singling out an individual (as in the case of Nick Leeson and the collapse of Barings Bank) and framing their behaviour as unrepresentative of the working practices of the financial services sector as a whole. In a similar vein, some crises have been framed as being both geographical distant from and self-contained outside London as in the case of the Asian financial crisis (Sidaway 2008). For financial elites, and the institutions they work for, the advantages of these strategies to financial crises lie in the ways in which they can be used to negate the need for wholesale regulatory reform since the causes of the crisis are individually, institutionally and/or geographically contained. This eagerness to avoid regulatory responses to financial crises is particularly evident in London where financiers tend to favour a ‘soft touch’ regulatory environment, reminiscent of earlier periods of finance in London in which regulation was dominated by ‘gentlemen agreements’ with the Bank of England and HM Treasury (Moran 1991).

However, the powerful elite networks choreographed by investment bankers in London in the most recent reincarnations of investment banking have prevented the credit
crunch being framed in this way. There are two significant dimensions to this that each reflects the strategies used by financial elites to negotiate the previous financial crises identified above. First, despite a small number of individual investment bankers being singled out as ‘rogue traders’ as the credit crunch has unfurled (such as Jérôme Kerviel at BNP Paribas and the Ponzi scheme run by Bernard Madoff), the credit crunch has been framed as more systemic in nature than previous crises. Blame for the credit crunch cannot be levelled at individual investment bankers because of their central role in choreographing the networks of financial institutions and socio-technical actors which have underpinned the securitised form of financial services activity that lie at the heart of the credit crunch itself. Indeed, with securitisation and structured finance being widespread business practices amongst investment bankers, the regulatory and media spotlight has turned to the agency of investment bankers in general rather than individual bankers or particular financial theories in an actor–network sense. In the case of London, for example, the Commons Treasury Select Committee has criticised both the Bank of England and the Financial Services Authority for not ensuring that financial institutions in general (rather than either particular institutions or individuals) addressed risks in their business models associated with securitised lending practices (Treasury Committee 2008).

Second, the spatial qualities of the networks of ‘power through mobilization’ that investment bankers choreographed in the 2000s has prevented the global credit crunch from being framed as a geographically distant event, separate from London’s international financial centre. In particular, the operations of investment bankers in London are by no means restricted to the boundaries of the UK but are part of fundamentally transnational office networks that are made up of dense and frequent flows of capital, knowledge and people between international financial centres (Sassen 2001). These close working relationships between financial centres are examples of what economic geographers have termed ‘relational proximity’ (see, for example, Amin 2002) and can be located within a broader interest in topological spatial imaginaries, drawing on the work of theorists such as Latour (1986). As Allen (2003: 192) argues:

in distance terms, what is near and what is far is not simply a question of geometric measurement between fixed points; rather it is one of connection and simultaneity as different groups and institutions mark their presences through interaction in all kinds of powerful and not so powerful ways.

Indeed, for investment bankers in the early 2000s in the run up to the global credit crunch, the expansive spatial reach of the networks they choreographed through practices of securitisation partly contributed to their position as powerful financialised elites, as the following example demonstrates:

We are fundamentally a global business, our activities generally involve both London and New York and that is certainly something we use in our branding to legitimate ourselves as important players in the market.

(Investment bank associate, September 2006)

However, the transnational nature of the working practices described above has prevented investment bankers from framing the credit crunch as a financial crisis that is geographically distant from London. This comes despite frequent attempts by the Prime Minister Gordon Brown to argue that the UK economy is being buffeted by international difficulties in which it does not have agency.
These twin difficulties of not being able to frame the global credit crunch as either institutionally or geographically distant from London’s financial district may suggest, on first impressions, that financialised elites including investment bankers may struggle to retain their position as financial elites going forward. However, experience from previous periods of financial turbulence suggests that such an analysis is too hasty since financial elites have demonstrated considerable ability in reinventing themselves through new financial activities, particularly when the meso-level socio-economic environment creates periods of conjunctural opportunity (Engelen et al. 2008). For example, whilst investment banking had dominated corporate finance provision in London in the 1990s, following the bursting of the dot.com bubble, new forms of financial firms emerged focusing on M&A advice in the form of corporate finance boutiques (Hall 2007a). Meanwhile, as securitisation grew and cheap credit was readily available, in the mid 2000s hedge fund and private equity firms grew rapidly with powerful partners at their heart (Froud & Williams 2007). This suggests that far from the global credit crunch heralding the demise of financialised elites, they are likely to continue to be important actors within the international financial system, although the sorts of institutions they work for and the services they offer may not be ones with which we are currently familiar.

Conclusions

Since the summer of 2007, the global credit crunch has attracted a considerable amount of press coverage and its impact continues to be hotly debated in media, political and academic circles. Whilst there is always the temptation with significant economic events such as this to focus on the crisis in relative isolation, in this paper I have taken a longer term view of the credit crunch by focusing on the changing role and nature of financialised elites within the financial sector who, although clearly important in contemporary financial services practice, have an extensive historical lineage. In particular, I have sought to use the global credit crunch to develop understanding of investment bankers working in London’s international financial district who were central to both the significant growth of financial services and a financialised UK economy from the late 1990s onwards, but as a result have been placed at the heart of continuing debates about the causes and consequences of the credit crunch for the financial services sector and the UK economy more generally.

Following the work of Allen (2003), I have argued that it is instructive to consider the different modalities of power developed by investment bankers as investment banking has grown in London over the last twenty years. My research suggests that whilst merchant bankers and early investment bankers predominately utilised what Allen terms ‘power as capacity’, the more recent growth of investment banking has been based around investment bankers choreographing transnational socio-technical networks of financial actors in which their power cannot be read off their social or educational background but emerges through their working practices associated with securitised and structured financial products. This is significant since these networks of power have made it difficult for investment bankers to distance themselves from the ongoing turbulence and uncertainty within the international financial system associated with the global credit crunch. And yet, their ability to (re)produce such networks indicates that suggestions of the demise of financialised elites in the wake of the global credit crunch may be too hasty, as previous financial crises demonstrate their considerable ability to seize moments of conjunctural opportunity and reinvent themselves through new financial products and organisations.
In making this argument, the paper contributes to two related literatures in the broader social sciences. First, it provides one example of how the study of economic elites remains important and can potentially be reinvigorated by focusing on the different modalities of power associated with elites. In particular, I have adopted a post-structuralist inspired understanding of power to emphasise how financial elites ‘choreograph’ socio-technical networks within contemporary finance. Such an approach emphasises the agency of elites, something that is often downplayed in work on the ‘performativity’ of such networks from a social studies of finance perspective. Second, in terms of work on processes of financialisation, my research points to the importance of situating recent developments in the context of the longer-term development of the financial services sector. In this respect, although the types of power associated with financial elites may have changed, they are by no means a recently invented group of economic actors and informative understandings of their current activities can be developed by positioning them in relation to earlier financial elites. Given the ongoing and dynamic nature of the global credit crunch, studies of different kinds of financialised elites, such as that presented in this paper, are a valuable way of beginning to unravel the causes and possible implications of the latest chapter in the ongoing development of the international financial system.

Acknowledgements

The research reported on in this paper was funded by the ESRC (R42200134540) and a Nuffield Foundation Small Research Grant (SGS/32024). In addition to this financial support, I gratefully acknowledge the time freely given up by the investment bankers I interviewed. I am also grateful to the three anonymous referees whose comments helped shaped the final version of this paper.

Note

1 Securities firms were companies whose operations specialised in the issuing and trading of international bonds and equities rather than advisory work on mergers and acquisitions for corporate clients (Clarke 2000).

References


