Commonweal

The Invisible Owners

On the rise of asset management

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I live in London, and with little choice but to use its water and sewage systems, I make payments each year to the company that owns and controls them. Thames Water was, until 1989, in public hands, and thereafter under different private owners until 2006. It sold that year to a firm called Macquarie, which self-describes as "a global asset manager that aims to deliver positive impact for everyone." This was my first direct experience with asset management, which has since encroached on almost every corner of our lives and finances.

Macquarie owned Thames Water for eleven years, during which time the utility's debts trebled to upward of £10 billion ($12.6 billion) as Macquarie borrowed against its assets and siphoned off profits (the real "positive impact"). They directed those profits to shareholders in the form of dividend payments, which soared to £2.8 billion ($3.5 billion), a sharp increase from Thames Water's previous payouts. At the same time, investment in improvements stagnated and the company failed spectacularly to achieve its leakage-reduction targets. Finally, in March 2017, Macquarie sold its remaining stake, eight days before a fine of over £20 million was imposed on Thames Water due to its persistent spilling of raw sewage into England's rivers and seas.

This story represents a defining trend of our times, one that Brett Christophers examines in compelling detail in two recent books, *Our Lives in Their Portfolios* and *The Price is Wrong*. The first book details the asset managers' takeover of large swaths of the world economy, notably social infrastructure; the opaque ownership models that conceal them from democratic scrutiny; and their short-term "grab what you can" modus operandi. It also assesses the consequences, finding them to be generally abysmal—and in the case of Thames Water, literally shit.

Simply defined, asset managers are firms that manage money on behalf of investors. The investments may be in financial assets—what Christophers refers to as "asset-manager capitalism"—or in housing and infrastructure, which he dubs "asset-manager society." This is where asset managers own *and control* "essential physical systems" such as transportation, energy, and health. The investors may be high-net-worth individuals, but more often they are institutional: pension funds, sovereign wealth funds, banks, and insurance companies.

Asset-management firms often claim that they assist working-class retirees by cleverly investing their pensions. Christophers scotches this idea. Not only do low-paid retirees hold only a small proportion of the pensions that asset managers invest; they also "suffer the indignity of realising subpar rates of return from the managed investment of those meagre resources." If asset managers favor a particular type, "it is not a humble Pennsylvanian schoolteacher or Californian firefighter, but rather the likes of Yasir Al-Rumayyan, the chairman at one of the world's most profitable companies, the oil giant Saudi Aramco" and the chair of the "world's most notorious sovereign wealth fund," namely, Saudi Arabia's Public Investment Fund.

The sector is a "centripetal force." It concentrates money "inwards and upwards," bolstering the wealth of the global elite—which is increasingly populated by asset-management executives themselves. Data from 2022 on pay awards for the bosses of America's largest quoted companies reveals that the top position, with $253 million "earned," went to the CEO of Blackstone, an asset-management company.

The rise of asset management can be dated to the waves of privatization that commenced in the 1980s. It was facilitated by a model of managing social infrastructure reliant on public–private partnerships, and then by the Great Recession of 2007 to 2009. Following the financial crisis, as mainstream banks faced tighter regulation, capital flowed into shadow banking and asset management. Yields on corporate and government bonds slumped, and the higher rates of return available from infrastructure and housing assets became more enticing.

Simultaneously, we saw the intensification of what I would call governmental short-termism. During the neoliberal era, an "infrastructure gap" emerged between investments needed and those provided, and the effects of climate change further exacerbated the problem. Recognizing the need for greater infrastructure spending yet hamstrung by rising public debt and a refusal to raise taxes on the rich, Western governments "implored the private sector to help plug the gap." This set the stage for asset management's takeover of infrastructure and housing, which was sold to the citizenry with the promise of private-sector efficiency savings. In fact, asset managers increase the costs and risks for taxpayers and constrain public policy.

The spectacular rise of asset-management firms can be measured in a number of different ways. One is by the total value of their assets under management, which in 2020 surpassed $100 trillion—representing over 40 percent of total global financial wealth. Another is by their share of equity in U.S. stock markets. In the 1980s it was close to zero; today they own at least one-third of the average S&P 500 company. A third way is to gauge asset management's direct influence on our lives. Every day, reckons Macquarie, over 100 million people rely on "infrastructures that it owns to go about their everyday lives." The assets controlled by Blackstone include Legoland, the dating app Bumble, the Hilton chain, and countless housing and business premises—it is the world's largest commercial landlord.

In many countries, asset managers have usurped the role of banks and insurance companies as the dominant financial players. Germany is a case in point. In the late twentieth century, banks and insurance firms such as Allianz, Deutsche Bank, Dresdner Bank, and Münchener Rück dominated its corporate networks. Today, those pivotal nodes are occupied by U.S.-based asset managers: BlackRock, Vanguard, and Capital Group.

Asset-management companies succeed in large part through their ability to avoid taxes and levy fees—for example, consultancy fees for advice given to the companies they acquire. These fees ensure that their share of returns exceeds the share of the capital they invested in any given fund. "As David Carey and John Morris have wryly observed," Christophers writes, "the acquired company effectively pays the asset manager 'for the privilege of being owned by it.'" As for taxes, asset managers can exploit loopholes better than most corporations. They are "deeply embedded in the world of tax havens and 'offshore,'" and many funds are established as limited partnerships in order to evade taxes. Asset managers are experts at reducing their risk exposure and displacing it onto others, notably taxpayers.

Christophers is at his most acute in his discussion of energy and infrastructure. Our dependence on asset managers translates into predictable and risk-free sources of profit for them. Firms such as Thames Water are especially attractive—asset managers "like nothing more than monopoly." They also like sweetheart terms that guarantee income irrespective of future conditions. In Ghana, to take one example, the nationalized petroleum corporation agreed to purchase a predetermined volume of gas from an asset-management-owned firm, even if it had no use for it.

An even more striking example comes from Chicago, where a consortium of investors led by MSIP, Morgan Stanley's asset-management arm, acquired the rights to the revenues from the city's parking meters from 2008 until 2083. The city agreed to pay fines to the consortium whenever parking meters were temporarily not earning—for example, when disabled drivers are parked or streets are closed. In some years, this has cost the city upward of $60 million in fees, or nearly three times the annual income that it had earned from the meters prior to the privatization. At a stroke, the deal transformed the parking meters from a source of revenue for the city into a burdensome expense. And worse was to come. When the Chicago Transit Authority sought to expand its network of rapid bus routes, it was forced to sacrifice efficiency and scale lest the removal of parking meters incur additional penalties.

Such stories, and there are many in the book, exemplify the short-termism of neoliberal politics. In an era of rising debt, social polarization, and low growth in tax revenue, states and municipalities look instead to fire sales of assets. These deals bring a brief sugar rush, yet, over the long term, they undercut revenue-earning potential.

Asset managers are short-termers too; they typically won't hold an asset for long. Their investments in infrastructure often take the form of a "closed-end fund." That is, sale of the asset is planned in advance by a few years, so managers can focus on finding ways to pump up its value for a profitable sale. They prioritize cost-cutting and suppress capital investment in improvements. In social-reproduction industries, in particular, the consequences are grim. Take America's care-home sector: U.S. nursing homes owned by asset managers charge higher prices, and yet compared to the sector average, they are more meagerly funded and suffer higher patient mortality.

With such a dire record in terms of public and customer satisfaction, one might ask why these firms have chalked up such spectacular successes. Fundamentally, it is about orchestrating economic and political power in the neoliberal age. Asset management companies reap their gains from the ability to centralize capital under their leadership. They represent one of the ways—another is "platform capitalism"—through which value gets hoovered up by corporations that mediate economic activity. Their increasing control of companies and investment funds represents a decisive step away from the previous, typically state-capitalist (corporatist, Keynesian, etc.) mode of capital concentration, toward global oligopoly.

Of course, states are not out of the picture by any means. Far from it. Some rich states, Christophers observes, have become "agents of private finance capital," escorting asset managers around the Global South to help them make inroads. They promote asset managers' interests worldwide on behalf of the national capital, much the way Austrian economist Rudolf Hilferding theorized a century earlier in his book *Finance Capital*.

Comparisons between Hilferding's work and Christophers's are instructive in other ways as well. Hilferding was writing in fin-de-siècle central Europe. The engines of industrial capitalism were roaring, and private ownership of the means of production was shifting from personal to impersonal forms, thanks to such innovations as the joint-stock enterprise. Capital was increasingly assuming a corporate form, a social power that supplanted the personal property of private individuals. The development of socialized capital and the divorce between corporate ownership and control caused coordination problems that were eventually addressed by dominant financial firms orchestrating broad fields of capital. This helped stabilize the corporate sector through monopoly and cartel arrangements and close-knit relations between finance capital and the state. Like Christophers today, Hilferding was seeking to characterize capitalism's new structure. But he went further than his successor: he attempted to map the new era of capitalist dynamics in its totality, rather than just one corporate form.

Hilferding was building on Marx's analysis of "social capital"—as distinct from individual enterprise—a pool of capital that circulates through the mass of individual firms. Big banks, occupying a privileged position vis-àvis these large pools of capital, were able to secure what Hilferding called a "promoter's profit"—essentially, a monopoly income earned simply by controlling the circulation of financial assets. In Hilferding's analysis, the big banks came to control a dominant share of collective capital, and thereby the major industrial sectors. Big banking made industry more monopolistic and cartelized, insulated to some degree from profitability considerations and better equipped to engage in long-term planning. In such ways, "finance capital" steered corporate structures in the first half of the twentieth century toward monopoly and "organization."

We can understand asset managers as the neoliberal counterparts to the big banks of Hilferding's day. They inherited a system that separates ownership from control and pulled them further apart, concentrating capital even more. Already in the early 1980s, economists were noticing that even the shareholders could disappear from the ownership equation. For example, some pension funds are "owned" by no one but able to become owners of companies—including the companies whose employees are contributing to the pension fund concerned. Today, many pension funds, and three-quarters of pension investments in infrastructure, are controlled by asset managers. Christophers follows custom in referring to the latter as the owners (or occasionally as "rentier-owners") even though in most cases legal ownership rests with the investment funds and not the asset managers.

This latest development in the "abstraction" of capital is also a story of how invisibility serves power. When an individual landlord owns an apartment block or an individual capitalist owns a firm, tenants and employees seeking redress have no difficulty naming the malefactor. Asset managers, by contrast, are enveloped in secrecy. They contract out management of the firms they control to intermediary companies, forming labyrinthine structures that deflect scrutiny. This is, notes Christophers, very much a "political problem," particularly when asset managers take the role of unelected quasi-governments by assuming control of the infrastructure on which we all rely.

If asset-manager *capitalism* was born and matured in the United States, asset-manager *society* was pioneered in neoliberal Australia and Britain. In Britain, the governments of Margaret Thatcher and John Major privatized utilities such as water, gas, and electricity to construct a "rentier's paradise," as the *Financial Times* put it. Their successor, Tony Blair, pushed public-private partnerships, or "Private Finance Initiatives" (PFIs), in the fields of health and education. From the inception of the PFI market, asset managers “swarmed all over it.”

In matters of physical infrastructure investment by asset managers, the United States, lacking “a culture of private ownership of major infrastructure,” trailed Australia, Britain, and Europe. But in the takeover of housing stock, it led the pack, and here, too, politicians were on hand to open the doors. Not only did President Obama’s housing-finance policy team hire extensively from Blackstone, but they recast federal housing policy in its image. This strategy appears all the more baneful in the light of the recent charge by UN rapporteurs that Blackstone’s housing investments are “inconsistent with human rights law” and have “deleterious effects on the enjoyment of the right to housing.”

How much are states being captured by asset managers? In addition to Blackstone and U.S. housing, Christophers mentions several U.S.-government recruits from BlackRock, including the deputy secretary of the Treasury, Kamala Harris’s chief economic adviser, and Brian Deese, who was BlackRock’s global head of sustainable investing before Biden hired him as director of the National Economic Council. Deese became, in Adam Tooze’s words, “the anchor of climate policy on the Biden economics team.” It was hardly a surprise, then, that climate infrastructure policy under Biden took the form of a “Green New Deal recast in the image of BlackRock”—a tame, conservative program geared toward de-risking private-sector investment.

Given asset managers’ considerable influence over climate policy, we must then ask, to what extent is the fate of the planet in their hands? To a troubling degree, Christophers answers. As major owners of renewable-energy companies, “asset managers are slowly but surely displacing oil and gas companies in the custodianship of the core of the world’s energy infrastructure.” This would seem to be at least somewhat positive news, with investment pouring into green energy, were it not for the fact that asset managers are notoriously risk averse. Not only do many of them hedge their bets by continuing to invest in dirty energy, but a green transition requires risk-taking and radical action, which is just not their style. The public awareness of the need for momentous infrastructure transformations (in energy, housing, transportation, etc.), notes Christophers, is crystallizing “at the precise moment in history when infrastructures at large have been passing from public into private hands.”

In 2020, BlackRock's CEO Larry Fink promised "a fundamental reshaping of finance" that would put "sustainability at the center of our investment approach." The backlash from the Republican Right has been predictable. Former presidential candidate Vivek Ramaswamy sniped at Fink ("king of the woke industrial complex") over his supposed attempt to restrict U.S. oil giants in their drilling opportunities. In truth, Ramaswamy need not fret. BlackRock continues to boast that it is "the world's largest investor in fossil fuel companies"; it controls seven percent of ExxonMobil and is making no signs of divesting. Some asset managers are even getting cold feet over ESG (environmental, social, and governance) considerations. Vanguard, the second largest asset manager, has withdrawn from the Net Zero Asset Managers initiative.

These are just a few examples of "why capitalism won't save the planet," which is the subtitle of Christophers's *The Price is Wrong*. Here, again, Christophers asks how keen asset managers really are to "go green." But his main subject is broader: Can state-incentivized green investments in renewable energy adequately address climate change at all? Only so long as it is highly profitable, Christophers contends, and the outlook is not as rosy as many people think.

The Price is Wrong is a brilliant and meticulous study of why that is. The topic is framed by two central observations and a presumption. Firstly, the world is on course toward catastrophic heating: around 2.8 degrees Celsius by 2100 if states' emissions-reduction pledges are fulfilled, and even higher if they are not, as seems increasingly likely. Second, the share of the world's electricity produced by fossil fuels is roughly the same as it was in the 1980s, and the amount of energy generated from fossil fuels is still on the rise. The most important step to decarbonization would be the replacement of fossil fuels with renewables, but this is not happening, and the book's central purpose is to explain why. As to the presumption, it is that energy consumption cannot be radically curtailed. Christophers is scathing of degrowthers' advocacy of a steep fall in rich-world energy usage.

The Price is Wrong begins with the paradox that has come to define renewables. On the one hand, the consensus is that the renewables revolution, from the 2010s onward, should be self-sustaining given that their generation has become cheaper than electricity from fossil fuels. Market forces should favor renewables. On the other hand, whenever governments have revoked renewables subsidies, investment has plummeted.

The flaw is the widely held but quite erroneous assumption that where a new technology produces a good at a lower *price* than rivals, capital will flow to it like water down a pipe. Investment is determined not by price but by *anticipated profit*. Fossil fuels tend to be highly profitable. They benefit from a century or more of infrastructure built around their needs, a high degree of monopoly power, and colossal government subsidies—past and present. And where gas is used for power generation, it benefits from an inherent hedge: gas typically sets the electricity price, so when a generator's revenues decline due to lower prices, its main input costs decline, too. Renewables generators, lacking that hedge, face greater price volatility.

The electricity generation sector, moreover, tends to be relatively competitive, with low barriers to entry, and is increasingly organized on a spot-market basis (that is, prices are for immediate transactions rather than future ones). For renewable providers, this is generally a recipe for low profits. In a competitive market, efficiency improvements tend to benefit consumers and states rather than producers. Profitability, therefore, is hard to predict, which deters creditors and chills investment. Wind and solar firms can try to avoid selling power at the spot price through long-term deals to supply power to image-concerned consumers such as Amazon or Microsoft, but these contracts cannot significantly tilt the profitability equations—it remains a buyer's market. When hydrocarbon prices peak, renewables' profits may rise, but then, as often as not, come the windfall taxes. Insofar as renewables *are* successful in displacing dirtier, more expensive technologies, this tends to reduce the price of electricity and therefore profitability. The more that renewables become electricity price-setters, the greater the influence of this "cannibalization effect." Not only do lower costs not guarantee that renewable energy will replace fossil fuels; given market dynamics, they can also in some ways undermine its competitiveness.

So, what is the way forward? Cooperatives and community developments, in Christophers's view, are "all well and good" but cannot "be the main answer," given the speed and scale of the required transition. One pathway, at least toward expediting decarbonization, would be to ensure greater profits for, and a de-risking of, the renewables sector by reforming electricity markets away from spot markets (to bring stability), increasing government subsidies (for stability and profitability), and enabling monopolization (to further stability, profitability, and the ability to plan ahead). Christophers offers this putative solution almost as a tease, for we know—from *Our Lives in Their Portfolios* and his earlier book *Rentier*

Capitalism—that he is only too aware of the role of corporate monopolies in cementing elite power and wealth at obscene levels.

In the concluding chapter, he reveals the real alternative: states should either compel private firms to invest in the renewable sector or, even better, bring it into public ownership. Private businesses ought to be "stripped of responsibility" for generating renewable energy because this sector is simply not profitable enough for them to develop it "as urgently and massively as we need."

As the theoretical underpinning of his argument, Christophers invokes Karl Polanyi's theory of commodity society. Nothing "could be more contrary to the traditional organization of human society," argued Polanyi, than a system that treats land, labor, and money as "fictitious commodities" to be disposed of by market forces as if they were "cucumbers." Any society artificially organized around these "commodity fictions" will contravene Christian-socialist ethics and will inevitably erode social cohesion and provoke popular resistance.

In Christophers's adaptation of Polanyi, some objects are commodities "by nature" while others are not—and electricity should be added to the latter category. Like labor and land, it is simply not a suitable object for marketization and the profit motive. With this, we arrive at the book's largely convincing, if narrowly drawn, conclusion.

The subtitle, "why capitalism won't save the planet," might be more accurately rewritten as "why decommodified electricity *can* save the planet." Capitalism is conceived by Christophers in a very limited and partial way, referring simply to private property, markets, and the profit imperative. Defining capitalism in this narrow, institutionalist sense, rather than as a social system based on wage labor and competitive accumulation, is common among Polanyian theorists and beyond, but it is misleading in its insistence on a strict dichotomy of state and markets, with only the latter coded capitalist. In the real world, as Christophers's account of asset management shows, state capital (such as sovereign wealth funds) are an integral part of the economic order. So, too, are state subsidies, nationalized industries, and the growth imperative—which holds sway wherever wage labor and capital exist, regardless of whether the latter is owned by individuals or states.

It is this accumulation drive, along with the systemic neglect of nature, whether under market-oriented or statist regimes, that imperils the planet. Christophers makes a persuasive case for the nationalization of all power generation under statist planning regimes as the centerpiece of a global Green New Deal. Such a project is urgently needed, but if saving the planet is the goal, the aspects of capitalism that operate within the state will surely need to be addressed, too.