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FORUM

Seeing like an asset manager

Brett Christophers

Uppsala University, Uppsala, Sweden
Email: brett.christophers@ibf.uu.se

Abstract

Asset managers have assumed a position of unprecedented power and influence in the control of essential infrastructures of social life, with broadly negative ramifications. But as the commentaries assembled here all insist, it did not – and does not – have to be this way. In this reply, I discuss the potential, as I see it, for the world to be otherwise, offering a rather pessimistic prognosis.

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Our Lives in Their Portfolios – the book that is the subject of this forum – is very much a book about the world as it actually is and about the myriad deleterious consequences of private asset managers having in recent decades become major owners of so much of the world's 'stuff' that matters to people's daily lives, from housing to hospitals, energy networks, and land. Very little of the book is given over to thinking carefully about how the world might come to be otherwise or indeed how it could have otherwise been if only history had headed in a different direction when critical forks in the road were reached. Insofar as the book's focus is actually existing finance capitalism, the commentaries gathered together here, for which I am of course extremely grateful, represent a useful and timely corrective. Though they range widely across themes both central and more peripheral to the book, what they share, on my reading at least, is a core concern with the 'otherwise', both looking backwards in time and forwards.

To the extent that *Our Lives* considers alternative historic scenarios (i.e. the 'what might have been?' question), it is focused largely on the asset side of asset managers' business. As the book explains, this business is, in essence, very simple: what asset managers do is pool together money from end investors such as pension funds (this money represents their liabilities) and, for a fee, invest it in anything from company stocks to bonds and real estate (the asset side).

Where the assets that preoccupy *Our Lives* are concerned, arguably the main reason that the likes of Blackstone, Brookfield, and Macquarie were historically able to become major owners is that beginning in the 1980s and continuing to the present, governments around the world have sold such assets *en masse*. Would asset managers have been able to become substantial owners of, for instance, housing in Germany, roads in India, or water and electricity networks in the United Kingdom had the governments of the respective countries not decided that these were things that were better off owned and managed by the private sector? No. They would not. When neoliberal ideologues began whispering in policymakers' ears that privatisation was the way ahead, those policymakers had a choice:

to acquiesce or to resist. The wholesale defeat of the 'resist' alternative goes a considerable way to explaining why we are where we are today – namely, in what I call 'asset-manager society', where asset managers control much of the essential infrastructure of social life.

But both Michael McCarthy and Bruno Bonizzi and Annina Kaltenbrunner, in their respective commentaries, are correct that there were other notable historic defeats that *Our Lives* does not specifically address and that some of the most important of these were on the liabilities side of the business. When, in the 1970s and 1980s, workers around the world but especially in North America and Western Europe began to accrue significant retirement savings for the first time, there was another critical fork in the road. Would those growing savings be controlled and put to work by workers themselves, potentially in democratic ways and towards positive social ends? Or would the private finance sector ultimately come to dominate the warehousing and mobilisation of these savings, in ways much less democratic and progressive? We now know the answer. But the outcome was not inevitable, and the picture I painted in the book would indeed look very different had the other path been taken. As McCarthy writes, 'The defeat of efforts by organized labor to build pools of democratized finance laid the foundations for the emergence of asset manager society'. Bonizzi and Kaltenbrunner make more or less the same point, and it is a crucial one.

We can usefully generalise from these starting observations. If one broadly agrees with my assessment in the book both that the emergence of asset-manager society has been an overwhelmingly negative development and that, as such, a prospective hobbling of asset managers' role in controlling essential infrastructures is much to be desired – and I sense that all the commentators do broadly agree – then there are two broad routes to achieving such hobbling. These could target the asset side or the liability side, respectively, or both.

On the asset side, the key point is simply that asset managers need things to invest *in*. If there were no apartment blocks or water-supply networks and so forth to buy, or if the ownership of such assets by asset managers were prohibited, then asset-manager society would not – could not – exist. It exists, that is to say, only because governments have historically decided that it can. Those historic decisions can be unmade.

On the liabilities side, a similar logic applies. Having others' money to invest is no less essential to the asset manager's business model than there being assets to buy with that money. Today, a huge proportion of the global surplus capital available for investment is invested indirectly via asset managers rather than directly by the institutions or individuals to whom the capital belongs. Were the world's leading pension funds, insurance companies, and sovereign wealth funds to decide to bring investment activities in-house, the blow to asset managers' business model would be no less fatal than if governments determined that the things that asset managers typically buy were not for sale to them after all.

Both Lenore Palladino and McCarthy believe that, in these regards, there are legitimate grounds for optimism about the future – that asset managers *can* be hobbled. They appear to be especially optimistic vis-à-vis the liability side of the equation: in other words, they think that some of the investment capital currently routed via asset managers could be wrested away from them and managed in more democratic and progressive ways. I admire this optimism, and even more than that, I admire the hard work that goes into imagining alternative, brighter, financial futures. Whether it is the public asset manager envisioned by Palladino or the people's assemblies envisioned by McCarthy, thinking about the forms such institutions might credibly assume takes creativity and pragmatism in equal measure.

For my own part, I am less sanguine. For one thing, it is a depressing fact that where public pension funds, for example, *have* brought (or retained) investment activities in-house, thereby circumventing asset managers and their extractive fee structures, very similar investment logics and outcomes have materialised nonetheless. The classic example of this is the so-called 'Canadian model'. The big Canadian public pension funds are highly distinctive inasmuch as they tend to invest in infrastructure directly rather than through asset managers, and yet in practice, they operate in more or less identical ways to Brookfield, Macquarie, et al.

Moreover, for all the growing awareness of the damages inflicted on society by asset managers through their control of housing and other essential infrastructure, the ordinary workers whose retirement savings contribute much of the necessary working capital have generally shown very little appetite for any kind of democratisation of investment. Partly this has to do with the fact that the rhetoric of the asset management sector – that, as Blackstone serially puts it, the prime beneficiaries of its activities are the 'teachers, nurses, and firefighters' whose savings it invests – has been enormously seductive and persuasive, even as these are in fact weasel words. But it also has to do with the fact that workers are, to one extent or another, self-interested economic actors. They want maximum returns, for a prosperous retirement, and why would they not? If they think Blackstone and co are the ones to deliver this, then naturally they accept the status quo.

There is arguably even less reason for optimism on the asset side of the equation. Palladino raises the possibility of revivified large-scale public ownership and management of housing and utilities. But even in the rich Global North, there is almost no political appetite for a meaningful reversal of the historic privatisation of such assets. Though some commentators have declared its demise, the reality is that neoliberal ideology continues to reign supreme, ordaining not only that the private sector is always and everywhere a better, more efficient custodian of essential infrastructures than the inherently inept public sector but that governments lack the necessary fiscal resources to undertake serious fixed-capital investment.

If a return to a big state – borrowing, investing, and managing infrastructure on a big scale – seems unlikely in the Global North, it is, as Bonizzi and Kaltenbrunner correctly observe, even more far-fetched a proposition for the Global South. The likelihood is that we will see much more, not less, asset-manager investment in Global South infrastructures. Why? In Bonizzi and Kaltenbrunner's own words: 'given severe fiscal constraints and development needs, and the nature of asset manager society as a substitute for state willingness and ability to provide basic infrastructures, the growth potential for asset manager society in the Global South is worryingly large'. That is exactly right, it seems to me.

One of the key contributions of Madison Condon's commentary is to ask the question of how these potential futures might be reshaped given the acceleration, and seeming ineluctability, of the climate crisis. Will governments persist with a hands-off approach, leaving housing and infrastructure investment and ownership to the private sector (and asset managers in particular), as the temperature rises in the years and decades ahead? Condon thinks not. 'My own guess', she writes, 'is that as the size and pace of climate-related disasters grows, and things fall apart, the state will be compelled to rush in, in one way or another'.

Maybe so. All I would add here, however, is that the state is likely to step in selectively. Asset-manager society itself has never been anything other than selective. Asset managers serially cherry-pick assets to invest in, picking off attractive infrastructures with plump and predictable returns while turning their noses up at riskier options. That this is the case is noted by Bonizzi and Kaltenbrunner, who identify energy, infrastructure, and land as sectors that, 'even in subordinate economies, are relatively safe, and can generate stable revenue streams', while asset managers from the Global North put very little capital into Global South housing or social infrastructure.

In an increasingly climate-stressed future, it is difficult to imagine private asset managers becoming any less selective. Absent genuinely transformative political-economic change, the most likely scenario is surely one of asset managers investing in, owning, and extracting income from *only* assets that reliably pay, which is to say assets valorised by the everyday lives of rich people – lives which one can expect to become more and more sequestered from the lives of the poorest and most climate-afflicted. The state, meanwhile, will be left to fill in the gaps and patch up the holes where and when it can, which will not be always and everywhere.

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