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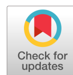

FORUM

Asset-manager society and international financial subordination

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Abstract

This essay critically engages with the concept of asset-manager society (AMS) proposed by Brett Christophers. We begin by drawing out its five key elements through a contrast with the related but distinct concept of asset-manager capitalism. We then ask to what extent AMS can be observed in the countries of the Global South, which are characterised by a subordinate position in international money and financial markets. We conclude by highlighting some potential implications of the rise of AMS in these economies and offering some broader thoughts on the future.

Keywords: asset-manager society; asset-manager capitalism; Global South; international financial subordination

Introduction

Over the last decade, the global economy has been characterised by a fundamental change: the rise of large global asset managers as key intermediaries of financial resources and private capital. Increasingly substituting for (regulatorily constrained) banks, these at times enormous financial institutions have come to dominate stock markets across Europe and North America. As a result, corporations in the Global North are increasingly owned by index-tracking funds, which hold highly diversified portfolios and generate income through the fees they receive from clients. As highlighted in the growing literature on asset-manager capitalism (AMC) (Braun, 2022), this development has potentially fundamental implications for the ability of financial investors to exit their investments, and – on the macroeconomic level – the financialisation of the real economy.

Brett Christophers' book *Our Lives in Their Portfolios* is also concerned with the rise of these large global asset managers, however, not as key players in corporate markets, but as investors in, and providers of, key social services, such as housing, education, energy and water. Indeed, his concern is with the increasing infiltration of private financial capital into services, which were historically – and by their nature should be – provided by the state. The book is both a detailed empirical description of a very opaque yet enormously impactful part of the financial sector, and a critique of it. So impactful that, according to Christophers, it has come to define our society. Through detailed case studies, Christophers shows how these asset managers have by now entered every aspect of our social life, how they do it, and most importantly what detrimental implications this has on service users, already debilitated state capacity, and society as a whole.

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In our recent work (Bonizzi and Kaltenbrunner, 2024), we have investigated in detail the manifestations of AMC, and its implications for countries in the Global South which is characterised by a subordinate position in the international monetary and financial system. In this short contribution, we want to present some initial thoughts on what asset-manager society (AMS) might look like in the Global South and what it would mean for economies characterised by international financial subordination (for an overview of this concept see Alami et al. 2023).

We develop our argument in two main sections. We first summarise the key arguments of Christophers' book, focusing on our reading of the salient characteristics of AMS (and its differences to AMC). We then summarise our key arguments concerning the relation between AMC and international financial subordination and further develop these arguments in the context of AMS. We conclude with some thoughts on what we might expect in the future.

The traits of asset-manager society

The key contention of Christophers' book is that the growth of certain types of asset managers and their practices have come to define AMS. This is related to, but conceptually and practically distinct from, AMC (Braun, 2022). In our reading, there are four key identifiable traits of AMS, which make it distinct from AMC.

Firstly, in AMS asset managers own 'real assets' that have a direct impact on our daily lives. As Christophers (2023: 15) writes:

> Whereas, after Braun, growing asset-manager investment in mainstream financial assets such as publicly listed shares and bonds powerfully reshapes business and the economy ... growing asset-manager investment in the 'real' assets that are housing and infrastructure powerfully reshapes social life itself.

The assets which are of particular importance/concern include housing, mainly multifamily housing such as tenanted apartment blocks; farmland; energy; transportation, including major infrastructures but also more mundane things like parking facilities; telecoms, in particular, wireless communication infrastructure, fibre-optic networks and data centres; water infrastructures; and finally social infrastructures, ranging from schools and hospitals to old-peoples' homes, prisons, and courthouses. In the context of energy, most of the investments focus on renewable energy, as this energy tends to better correspond to the asset managers' demands, due to their very straightforward and limited upkeep compared to fossil fuels. For Christophers (2023: 125) this 'means the transition from fossil fuels to renewables also represents a transition to asset manager society'.

The second distinctive trait of AMS is control. Whereas, according to Christophers (2023: 39), AMC is a capitalism of large, universal and disinterested shareholders,[1] control is one of the calling cards of AMS. Real assets require asset managers to take a direct active management style to produce returns. Decisions about cost reductions or increasing fees, which are necessary to increase the asset's net cash flows, can only be taken if the asset-manager controls it. Importantly, active control is here understood in a financial sense, rather than the actual daily business of running these assets, which is normally outsourced to service providers. In addition to taking full control through, for example, intermediary companies, other relatively common investment scenarios include fractional ownership, long-term contracts and concessions and public-private partnerships.

Thirdly, these institutions are highly profitable, based on high fees. As highlighted by Braun, one of the fundamental shifts in AMC is the move towards extensive rather than intensive financial accumulation. What this means is that, rather than banks which make

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money from interest payments on existing loans, asset managers generate fees from the assets they hold under management. As a result, in AMC we see structural pressures for the creation of ever new asset classes that can be included in AM portfolios. The same seems to hold for AMS. However, unlike the passive asset managers in bond and stock markets, whose profitability essentially depends on economies of scale (i.e., on the size of the assets under management), AMS is based on a performance-fee model. This means the focus is not just on generating fees from investors, but also profits through regular income, e.g., rents, fees and service payments. Indeed, Christophers' book is full of blood-boiling examples of asset managers acquiring family housing with the explicit intention to increase rent payments; often facilitated by the specific socio-economic and territorial properties of their acquisitions. But crucially, these operations are 'more means to an end, than an end in itself', with the end goal being 'to maximise the disposal consideration' (Christophers, 2023: 194). Selling for a profit is the ultimate goal of AMS, keeping a significant share of the spoils.

This leads us to the final distinctive aspect of AMS, namely the institutionalisation of short-termism through the use of closed-end funds. Quoting here again from Christophers (2023: 190) directly:

> even before buying an asset, the manager of a closed-end fund knows that the asset will have to be sold in a few years' time; and the longer the asset is held, the more the knowledge of the necessity of impeding disposal burns into the managers' consciousness, inevitably shaping everything about how much the asset is handled – the aggressiveness with which revenues are generated from it, and the care with which monies are invested in its operation, maintenance, and renewal.

This is key and puts these peculiar institutions together with the general defining trait of 'financialised capitalism'. While Christophers (2015) is a long-standing critic of the concept of financialisation, short-termism across both real and financial actors is one of its defining traits. For instance, there is a clear parallel between shareholder value orientation and its consequences on declining capital investment, and the fixed-term business models of asset managers.

What is important to note regarding Christophers' discussion of short-termism is that, while for Braun AMC is largely a shift from one type of financial investor (banks) to another (asset managers), Christophers is fundamentally concerned with areas where finance had no role to play for a very long time; areas where it was either specific private companies which owned and managed such services for decades, or, more drastically, services which were, and indeed still should be, provided by the state. When discussing AMC, the rise of big firms like Blackrock, Vanguard and State-Street might, at least for the Global North, herald more long-term, patient, or indeed 'stuck' investment. That is not the case for AMS, where quick turnover and churn *are* the business model, and as a result, principles of social welfare are being substituted by short-term financial motives.

This also shows that AMS is much more fundamentally concerned with the receding role of the state in the provision of economic and social services. As Christophers shows, the rise of AMS has a lot to do with the weakening of the state in Western, and indeed Global South capitalism. In the book, Christophers mainly emphasises the cultural shifts towards a neoliberal agenda and its distaste for the state. It is clear though, that this declining role of the state, and the ability of asset managers to take that space, is also fundamentally related to structural processes such as globalisation and the resulting erosion of states' tax base.

This concern with the receding role of the state and the infiltration of financial interests in the provision of basic social services, is also where the detrimental implications of AMS fundamentally lie. Hidden behind the veil of apparent competence (vis-a-vis bureaucratic

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and inefficient state apparati), the three rules of AMS (Christophers, 2023: 196) – to maximise revenues, cut operating costs, and avoid capital expenditures – are leading to a substantial qualitative and indeed quantitative decline in service provision (including an exacerbation of the spatial inequalities of service provision).

Moreover, given the quintessentially public nature of these services, the state never really leaves. Indeed, the state plays a crucial role in de-risking services by 'creating the optimum environment for investment . . . reducing the level of risk transfer to the private sector and thus offering relatively certain economic returns' (Christophers, 2023: 99). Ultimately, this entails re-taking these services and socialising losses, a development as fundamental to AMS as the decline in public capacity.

Finally, it is important to note that AMS does not only come with substantial secondary fiscal costs but also fundamentally constrains the way public services are provided in general and the autonomy of state provision. Here, Christophers' (2023: 179) example (drawing on Farmer's (2014) work) of parking metres provided by Morgan Stanley Infrastructure Partners for the City of Chicago is extremely illustrative: not only did those asset manager-provided parking metres lead to an increase in cost for the user, and secondary fiscal costs for the city of Chicago, but it also fundamentally constrained and impacted the city's ability to implement other aspects of urban planning, such as bus services and park-houses, and 'motivated street planning decisions that increasingly went against the public interest' (Christophers, 2023: 179).

Christophers' argument is persuasive and very well documented. As indicated above, the book is full of forensic details on what is an extremely opaque world; yet a world which by now concerns us all. Two critical points can perhaps be raised. The first concerns the identification of AMS with the closed-end fund model. Empirically, this is uncontroversial, as the book documents that these are by far the most common organisational form. Conceptually though it is not clear that open-ended funds are institutionally less short-term. While it may be true that they do not have an end date, open-ended funds allow for redemptions, sometimes as often as daily, from their clients, leading to very short-term, unstable dynamics. For example, during the UK pension fund liability-driven investment crisis in 2022, open-ended property funds faced a very large wave of redemptions, drying up their liquidity buffers and forcing them to dispose of assets (Klasa et al., 2022). Therefore, open-ended fund managers may have a more long-term outlook, but de facto become more directly affected by financial instability and liquidity management.

The second critical remark concerns the birth of AMS. Christophers points to the neoliberal logics and privatisation of public assets. However, this misses the crucial step of the institutionalisation of savings through the transition to funded pension schemes and reliance on private insurance companies; it is no coincidence that the paradigmatic country of AMS seems to be Australia, and it started in the 1990s, just as the Australian superannuation funds were given a significant boost (Clark and O'Neill, 2023). In other words, next to the 'pull' factors that Christophers describes in Chapter 2 (i.e. the suitability of infrastructure as an asset class for pension funds), there is also a direct impact of scale: the growing portfolio of pension schemes needs to be placed somewhere.

Asset managers in the Global South

The above section has laid out the contours of Christophers' AMS, partly contrasting it with the work of Benjamin Braun on AMC. So far, the discussion has been largely general, or shaped by a Global North perspective. But what about countries and citizens in the Global South? Are we likely to expect the same phenomena? With the same forms and implications? And what would AMS mean for the position of the Global South in the global economy?

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In our recent work on 'International Financial Subordination in the Age of Asset Manager Capitalism' (Bonizzi and Kaltenbrunner, 2024), we show that although there is a rising presence of large global asset managers such as Blackrock, Vanguard and State Street, in the equity, and particularly bond, markets of the Global South, it is too early to speak of AMC in these countries. The exposure of asset managers remains far too narrow (limited to a few companies) and shallow (smaller equity participation in individual companies) to observe one of the key implications of AMC – the reduction of exit power. According to Braun, the size and depth of asset-manager exposure to US companies makes it impossible for them to leave the market, making them literally 'stuck' in their investments. This, he hypothesises, should lead to an increased exercise of financial power through voice rather than exit (see note 1).

Yet, in the case of the Global South we do not observe these same dynamics. On the contrary, we show that given these countries' subordinate position in the international monetary and financial system, and the specific characteristics of AMC such as benchmark trading, global investment strategies and specific liability structures, asset managers' increased exposure to Global South countries might further increase their vulnerability to global financial conditions and the risk of large and sudden exchange rate and asset price movements. Indeed, we question whether, in a global economy characterised by entrenched hierarchies and a clear core-periphery structure, the reduced threat of exit is a 'privilege' of the global monetary and financial hegemon, which stands at the top of the hierarchy. Given this sustained structural power of finance in the Global South (exercised both by exit and writing the rules of the game through the dissemination of global investment standards), we also do not observe any apparent exercise of voice.

What we do observe though, through the rising participation of global asset managers, are significant, if regionally and nationally uneven, changes in the structure of domestic financial systems in the Global South. We argue that these changes, in turn, are both shaped by and exacerbate Global South countries' structural and systemic subordination in global financial markets (as does the continued exit power for asset managers). Specifically, in line with Braun's argument about extensive financial accumulation (i.e., the structural pressures on growing financial markets and new tradable instruments), we see a growth in market-based finance and the emergence of new financial instruments, such as exchange-traded funds and derivatives. In contrast to Global North countries, though, where AMC has largely been analysed as a phenomenon of equity participation in corporates, in the Global South asset-manager holdings are biased towards (public-sector) bonds that commit to regular and safer income streams (through the ability to roll-over the currency risk to Global South issuers), rather than equities. Moreover, AM participation is highly concentrated in 'safe and liquid' sectors, in particular traditional comparative advantage sectors and financials.

The above qualifies the dominance of AMC in the Global South. But what about AMS? Christophers argues that AMS applies to the Global North and the Global South alike. In his book, he recounts several examples of instances where asset managers have taken control of infrastructures in the Global South, particularly transport, renewable energy, road concessions and farmland. Yet, he also notes that the scale of AMS is still limited. As Christophers (2023: 139) estimates, asset-manager investment in the Global South is small, with about 10% of infrastructure investments focussing on Latin America and Africa. The proportion of investors *from* the Global South is even lower, so AMS really reflects international financial subordination, rather than domestic financial developments.

This still limited, if growing, participation of asset managers from the Global North in the infrastructures of the Global South is mostly[2] related to the perceived excessive risk in those economies. This risk is partly due to specific economic structures and political instabilities, but also contains a 'macroeconomic risk premium' due to these countries' subordinate position in the international monetary and financial system (Christophers,

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2023; see also Klagge and Nweke-Eze, 2020). Indeed, the risk of exchange rate and financial instability matters even more in the case of real domestic assets than in the case of financial assets, due to the currency of denomination. Real assets are largely denominated in domestic currency, while financial assets, in particular, bonds, can be denominated in US Dollars. As discussed above, asset managers have been biased towards bonds, rather than equity, since bonds can be denominated in foreign currency and ensure stable and guaranteed dollar returns.

At the same time though, given severe fiscal constraints and development needs, and the nature of AMS as a substitute for state willingness and ability to provide basic infrastructures, the growth potential for AMS in the Global South is worryingly large. Indeed, the 10% of global infrastructure assets under management allocated to Latin America and Africa, is larger than these continents' weight in global equity markets.[3] Moreover, in this context of international financial subordination and severe fiscal needs, the forms of AMS, which are emerging are particularly pernicious and detrimental to these countries.

The key distinctive aspect is that due to the excess risks in the Global South, as Christophers (2023: 107) also points out, 'de-risking needs to go above and beyond that undertaken by Global North governments'. This means that the secondary fiscal burden on the state, and the reduction in already weak state capacity are likely to be more severe in the Global South. For example, drawing on Daniela Gabor's (2021) important work on the rise of de-risking as a development paradigm, Christophers (2023: 173) recounts the example of Ghana, where due to a 'take or pay' clause negotiated with private investors, the Ghana National Petroleum Corporation must purchase a predetermined quantity of gas irrespective of whether it is able to use it. As a result, in 2019 alone, the government's bill for 'unused gas; was US$ 250 million.

More than that, in the Global South, de-risking strategies have been institutionalised by international donor communities in a paradigmatic shift in global development, which Daniela Gabor (2021) refers to as the 'Wall Street consensus'. The current de-risking practices in the Global South are generally labelled 'blended finance'. Blended finance consists of using official development assistance funds (from the Global North) as a catalyst for further private investment. For example, public funds can be used as 'first-loss' junior capital in an investment project, thus lowering the risk for other investors, or to subsidise returns against certain risks. An example of such funding is the Climate Investors Facilities, which are used to fund renewable energy projects in emerging markets. The development and junior equity finance comes from the European Union and the Nordic Development fund, while private institutional investors provide senior tranches of the construction and operation stage.

Blended finance as the form of asset-manager investment in real assets in the Global South can be problematic in two respects. First, aggressive de-risking can be costly and constraining for developing countries. One such example is the Nigerian Azura power plant, owned by a consortium of investors including a private equity fund managed by Old Mutual. As Gabor (2021) documents, a shortfall in the energy grid capacity led to a forced compensation of Azura by the Central Bank of Nigeria, and a further loan from the World Bank to Nigeria against a commitment to structural reforms in the energy sector. Second, blended finance can deprive these countries of more conventional forms of development assistance. For all the fanfare about transforming billions of public money into trillions of private investment, the vast majority of blended finance projects are funded by development banks and governments, with very little private investor participation (Bernards, 2024). This begs the question of whether diverting development assistance funds to de-risk is the best usage of such a scarce resource.

In addition to the higher demand on countries in the Global South to de-risk, two more points are worth raising on the nature and implications of AMS in the Global South context. First, and in line with our argument on AMC, in AMS we might observe a

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structural bias towards certain sectors which do very little to finance the broad-based development and social welfare needed in these economies. As recounted by Christophers, and mentioned above, AMS in the Global South has been mainly concentrated on sectors such as energy, infrastructure, and land. This is not a coincidence. These are the sectors which, even in subordinate economies, are relatively safe, and can generate stable revenue streams either through existing comparative advantages or through state action. On the other hand, it is interesting to note how little investment has gone from Global North asset managers into housing or social infrastructure. Persistent inequality and a small middle class, are, at least for the moment, unlikely to lead to more extensive asset-manager participation in broader social services such as education, childcare and elderly care.

Second, while less significant in the context of Global North AMS, the geographical location and core-periphery structure of asset-manager capital itself, will remain a key element for Global South economies, at least in the medium term. As highlighted above, one key element of the emergence of AMS – at least in our reading – was the institutionalisation of savings, mainly through the growth of funded pensions that needed new asset classes to invest in. Although pension funds are growing across the Global South and do invest in private equity (Bonizzi et al., 2021), they are unlikely to grow large enough, given significant inequalities and labour market informalities. Moreover, given the hierarchical nature of the global financial system and institutional investors' need for 'safe' assets, institutional investors from the Global South are unlikely to have a high domestic investment focus to generate dynamics similar to Australia 30 years ago. More generally, the continuing dominance of Global North financial institutions will, as we have argued elsewhere (Bonizzi and Kaltenbrunner, 2019), maintain the Global South's structural subordination in the international monetary and financial system, and with it their space for autonomous economic development.

Looking forward, AMS is therefore likely to reproduce the subordination of Global South. Based on recent history, there are reasons to be sceptical about grand initiatives such as the Partnership for Global Infrastructure and Investment. It is unlikely to be the solution to the enormous challenges of global development and climate change. In the Global South, much like in the Global North, it is time to question whether relying on short-term-oriented asset managers is the best way to organise our societies. Christophers has pointed us to that reality better than anybody else could have. Now let's take up his call and resist it.

Notes

1. Though our reading of Braun's work would have been slightly different here. In contrast to the dispersed individual shareholders of the shareholder value revolution (e.g., Lazonick and O'Sullivan, 2000), the at times substantial exposure of AM to individual companies could have led to an increasing exercise of financial power through voice. Interestingly, though, this does not seem to be the case. For Braun, this reflects the fear of potential political backlash (Braun, 2020).
2. In some – more advanced – countries in the Global South, particularly Asia, the lower importance of AMS could also be related to a sustained higher importance of the state. As highlighted in the developmental state literature, and more recently in the state capitalism literature (see Alami and Dixon [2020] for an excellent overview), in some of these economies the state continues to play a very important role in providing the social infrastructures which have fallen prey to AMS in the Global North.
3. Based on the latest composition (November 2023) of the global equity index MSCI ACWI, Latin America and Africa account for less than 3%.

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