Book Review: The Fall and Rise of American Finance by Stephen Maher and Scott Aquanno *

By Spencer Brown†

The Fall and Rise of American Finance: From J.P Morgan to BlackRock by Stephen Maher and Scott Aquanno. 2024. Verso, 272pp.

In *The Fall and Rise of American Finance*, Stephen Maher and Scott Aquanno argue that the 2008 Global Financial Crisis (henceforth: GFC) and the subsequent restructuring of the U.S financial sector amounted to a fundamental shift in American capitalism. What was previously a bank-centered financial system has now transformed—through the crisis itself and the U.S state's regulatory response—into a system dominated by large asset-manager firms such as the "Big Three" of Blackrock, State Street, and Vanguard. These massive firms, with trillions of dollars of assets under management, now own immense amounts of U.S corporate equity and wield excessive investor power over corporate boardrooms. According to the authors, this shift to asset-manager firms as "universal owners" of the total social capital of the United States is a new form of Rudolf Hilferding's "Finance Capital." They are, in other words, a fusion of finance and industry that has fundamentally broken with the New Deal institutional framework for managing the relationship between financial and non-financial corporations. This is a provocative thesis, with serious implications for not just our understanding of the trajectory of American capitalism, but also for how the Left is to approach a strategy for working-class politics in the era of large asset managers.

For Maher and Aquanno, the post-2008 emergence of asset managers as a new finance capital must be put in its proper historical context. To this end, they separate 20th and 21st century American capitalism into four distinct phases: Classical finance capital (1880-1929), Managerialism (1929-1979), Neoliberalism (1980-2008), and New finance capital (2008-Present). According to the authors, each of these periods forms a distinct cycle of decline and growth, with each phase corresponding to a specific organized form of corporate, state, and class power. They use this periodization to counter various political arguments on the Left that they believe are based on faulty historical reasoning. Significantly, the authors critique the common claim that capitalist "financialization" began during the neoliberal era. Instead, they place its origins squarely within the immediate post-WWII era of Managerialism, where they argue that non-financial corporations began to internally financialize their operations, thereby developing internal capital markets within the industrial corporation itself.

This historical attention to detail is one of the book's great strengths, and Maher and Aquanno offer a powerful summarization of the deep changes and continuity within the American financial system over the long 20th century. This is a story that can also be told through the lens of what Hyman Minsky called the "liability structure" of advanced capitalism (Minsky, 1992), a structure that can take the form of either debts or equities—a complex of financial IOUs which are simultaneously held as assets on the balance sheets of different economic units. Minsky's concept of a liability structure provides a useful way to supplement and expand upon the Maher and Aquanno's historical periodization, which begins with the era of Hilferding's Classical finance capital (1880-1929). In this formative period, the United States' economy consolidated and increasingly began to be defined by a structural fusion of financial institutions and large industrial corporations, all under the auspicious eye of the emergent bureaucratic state.

What Maher and Aquanno want to show—and indeed, do show—is that finance was central to 20th century American economic development. The authors seek to build on volume three of *Capital* and Hilferding's extension of its analysis of finance to investigate how this American fusion of finance and industry was organized around a bank-centered network of accumulation. This fusion was reflected in the liability structure of the period, as Classical finance capital involved the continuous transformation

* The author thanks the editors for their comments.
† Ph.D Student, Department of Economics, New School for Social Research, brows465@newschool.edu

of bank capital into industrial capital, specifically through investment banks holding large amounts of corporate equities on their own balance sheets. Investment banks such as J.P Morgan & Co. achieved this hegemonic role by leveraging their unique position as both generators of credit money and underwriters on capital markets. Crucially, the authors argue that this interweaving of banks and equity ownership lead to "a distinctly *long-term* interconnection between bank and industrial capital that constituted finance capital. [...] Industrial-financial fusion and long-termism, were, in other words, two sides of the same coin" (Maher and Aquanno, 2024, 41)

The authors chart how this industrial-financial fusion, which died in the regulatory shift of the Great Depression, was subsequently reborn in the aftermath of the GFC in the form of large asset managers. They highlight the key transformations in the liability structure of American capitalism over the Managerial (1930-1979) and Neoliberal (1979-2008) periods that ultimately led to this crucial moment. The immense changes brought about by the Great Depression sounded the death knell of Classical finance capital, as the New Deal regulatory state consciously separated banks from the governance of industrial corporations. The prime example of this new regulatory framework were the banking acts of 1933 and 1935, which split the functions of commercial and investment banking, thereby limiting the convertability of bank capital into equity. Commercial banks could no longer underwrite or be market-makers in private capital markets, and investment banks could no longer act as deposit-taking institutions. The authors argue that such regulatory shifts over what they call the Managerialist period led to a "fragmentation of equity holdings," thereby granting industrial managers autonomy from the dictates of the banking system (2024, 71).

This autonomy would come to an end with the transition to the Neoliberal period, as American capitalism adopted what the authors call a strategy of "asset-based accumulation." This shift was tied to the emergence of big institutional investors and the integration of pension funds into the larger financial eco-system of investment and commercial banks. Under asset-based accumulation, the ownership of financial assets as such becomes the goal, and the financial system is reorganized around the continuous market trading of assets. The authors argue that this accumulation strategy produced a key feature of the Neoliberal period, which was the simultaneous *concentration* of equity ownership on the balance-sheets of institutional investors alongside the *fragmentation* of the overall financial system into different specialized markets. Additionally, the process of "securitization" transformed each step of the loan-making process into a distinct market activity carried out by profit-driven financial firms. This was the new liability structure of neoliberal capitalism that would evolve all the way until the 2008 financial crisis.

All of this leads to the main thesis of Maher and Aquanno's book, which is that the U.S state's crisis management response to the GFC led to the rise of the big three asset managers, thereby inaugurating the era of New finance capital (2008-Present). The authors show how state interventions during the crisis did not just stabilize the financial system but also consolidated it around a new "risk state"—an extension of state power to risk-proof specific asset classes and support the overarching infrastructure of market-based finance. As the authors write, "The new 'risk state' formed in this period deployed the capacity of the state to mitigate and absorb financial risk to maintain low interest rates, which also led to a prolonged period of asset price inflation and fueled the turn to 'passive' investment funds managed by the "Big Three". This, they conclude, amounted to a "historic restructuring of corporate power" (2024, 147). Thus, the unprecedented concentration of equity on the balance sheets of Vanguard, BlackRock, and State Street constitutes the liability structure of the New finance capital. Just like in Hilferding's day, immensely powerful financial institutions directly hold the equity of industrial corporations, a re-fusion of finance and industry for the 21st century.

Maher and Aquanno make several important claims about these new asset managers, some more controversial than others. First, the authors argue that asset managers organize two circuits of money-capital, one that connects households to corporations, and another that connects corporations to other players in the financial system such as hedge funds. In the household-corporation circuit, asset managers buy stocks/bonds and manage assets on behalf of large institutional investors, thereby directing capital to corporations and returns to households. In the corporation-finance circuit, asset managers help redistribute cash within the financial system through money-market mutual funds and their liquidity-providing role in tri-party repo markets. For the authors, both these circuits highlight the functional role that large asset managers play in this era, meaning that they cannot be dismissed as mere parasitical appendages to more productive sectors.

More controversially, the authors argue that the rise of big asset managers has increased the overall competitiveness of capitalism. They state that "[c]ompetitiveness is built into the structure of the current form of financial capital," and they argue that when asset management companies intervene in the governance of firms held in their portfolio, this is to enhance firm-level competitiveness (217). This sharply contrasts with Benjamin Braun's writings on "asset manager capitalism," where it is argued that the concentration of asset ownership has suppressed capitalist competition (Braun, 2021). Maher and Aquanno further criticize Braun for arguing that asset managers have no direct interest in the performance of the individual companies in their portfolio. However, these two critiques of Braun, while important for framing future debates on the political economy of finance, remain inconclusive. The evidence provided by Maher and Aquanno (the hypothesis that divergences in asset manager portfolios incentivize intervention to order to increase competitive returns) fails to definitively refute Braun's argument, meaning that future research will be needed to clarify the precise relationship between asset managers and corporate competition.

Out of the thesis of a new finance capital, the authors draw several political conclusions regarding the future of working-class politics. Most importantly, the authors argue that the new finance capital does not constitute a "liberal finance bloc" enabling a class compromise with working-class political interests. Maher and Aquanno are adamant that workers cannot ally with high finance to achieve such goals as fiscal expansion, robust social programs, and attention to ecological issues. At the same time, the authors also argue that workers cannot ally with industrial capital against an allegedly "parasitical" finance sector. This is because capitalist globalization has deeply interwoven the interests of finance and industry, meaning one section of the capitalist class cannot be played off against another section. Rather, the authors posit the need for capital controls to discipline capital as a whole and create the space for working-class political gains.

The concluding message of Maher and Aquanno's book is that the Left must not just understand finance but also democratize it. This slogan of a "democratization of finance" is their political vision for socialist politics within the current period of New finance capital. By this slogan, Maher and Aquanno do not mean that the Left should simply call for the Big Three asset managers to be nationalized and put under public ownership. Instead, they argue that democratizing finance requires that social control be established over a larger set of institutions, including institutional cash pools and the traditional banking system. Furthermore, the democratization of finance requires a larger transformation of the state itself, since Maher and Aquanno believe that this is the only institution capable of carrying out a transition to a democratically planned economy. The fact that the democratization of finance remains inseparable from struggles over state institutions serves as a powerful reminder that the post-2008 financial system cannot be analyzed in isolation from the regulatory bodies of the U.S government.

Overall, *The Fall and Rise of American Finance* is a much-needed intervention into debates on the structure of contemporary finance. The book's combination of historical breadth and careful attention to the present conjuncture makes it a welcome addition to the fields of both Critical Macro Finance and Marxist political economy. Within its pages, readers will find an engaging narrative that clarifies where American capitalism has been and where it is currently going. Maher and Aquanno have written a sophisticated book on finance for a popular audience, a rare feat, and one that deserves to be read and discussed by economists and left-wing activists alike.

REFERENCES

Braun, Benjamin. 2021. "Asset Manager Capitalism as a Corporate Governance Regime." In *The American Political Economy: Politics, Markets, and Power.* , ed. Jacob Hacker, Alex Hertel-Fernandez, Paul Pierson and Kathleen Thelen. Cambridge University Press.

Maher, Stephen, and Scott Aquanno. 2024. *The Fall and Rise of American Finance.* Verso.

Minsky, Hyman. 1992. "The Financial Instability Hypothesis." *Levy Economics Institute Working Paper No.74.*