

***Divested: Inequality in the Age of Finance*, by Ken-Hou Lin and Megan Tobias Neely. New York: Oxford University Press, 2020. 232 pp.**

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Financial markets may be mercurial in their own right, but Ken-Hou Lin and Megan Tobias Neely seem to view finance a bit like mercury itself: it can be useful, but it's dangerous and makes for bad medicine. Though finance has been around for thousands of years, the book charts the recent rise and proliferation of finance and financial markets—primarily in the United States over the last forty years—and considers its connection to inequality in society. The book makes the case for thinking that this process of financialization of our economy is in some significant ways responsible for growing and deleterious inequality, directly opposing an ideology that takes access to finance to provide the solution to such inequality.

Lin and Neely define financialization as “*the wide-ranging reversal of the role of finance from a secondary, supportive activity to a principal driver of the economy*” (10, emphasis original). They argue that such a reversal has occurred in the United States, and they set about to show this through the growth of the financial sector itself, the influence of finance within the corporate world, and the burden of debt and financial planning placed onto individual households. They maintain that financialization thus understood is bad in itself insofar as it mistakes the source of economic value, but it is also instrumentally bad insofar as these mechanisms needlessly exacerbate inequality.

They argue that these processes unfold in a number of ways. Financial institutions extract economic rents far in excess of their value. Such institutions engage in predatory practices, complexifying their products while leveraging political power to lobby for less regulation. Meanwhile, corporations have been distracted from delivering value to customers and security to employees; instead, they are pressured to please shareholders and grow financial wings themselves. Meanwhile, households have become increasingly racked with debt, and we are told that a failure to get out of debt signifies poor saving habits and a lack of financial literacy.

For Lin and Neely, the 2008 financial crisis was a largely missed opportunity to confront and reform these practices. Instead, governments sought to restore the status quo, confronting “too big to fail” with acceptance and regulation to avoid failure. Lin and Neely maintain that, in so doing, we have collectively failed to challenge this central, overbearing, and self-serving role that finance plays in the economy.

Taken together, *Divested* is a powerful catharsis of the current economic moment. It uses resources from history, economics, sociology, and beyond to craft a narrative for how finance came to have such a central place in our economy (and in our lives). And it is not shy in communicating that this is an unhealthy and ultimately

unnecessary place for finance to take. For well-educated readers, many (if not most) of the trends Lin and Neely cite will be familiar. The rise in executive compensation, the effects of M&A activity on workers, the rise of student debt, the relatively poor economic position of Millennials—this is familiar, even personal. But what Lin and Neely provide is a showcase of these trends that is distilled, well explained, and put within an in-depth historical context. It strongly suggests what the authors aim to show: that current inequality cannot be solved with more credit.

With this and many of Lin and Neely's claims, I find myself broadly in agreement. Where I strangely find myself disagreeing is with something closer to the negative attitude that Lin and Neely take toward finance as a whole. This manifested in a few different places.

First, I think I disagree with the authors over the value of finance and financial instruments and innovations. Lin and Neely do go out of their way (for a paragraph on page 10) to acknowledge benefits of finance. They note that finance facilitates economic transactions, puts idle resources to use, allows for resource management across lifetimes, and can help to manage risks. In other words, they accept that finance is instrumentally valuable. But they seem extremely skeptical of the idea that the economic boom brought on by financialization tracks the creation of value. For example, they say, "Some argue that these earnings represent economic rents—excessive return without corresponding benefits" (45).

We are never told who argues for this, but it seems significant to settle how sincere the benefits of finance have been, even if those benefits have been unequally dispersed. Lin and Neely say too little to know for sure how they feel, but one gets the impression when reading that financial products are not *real* products; they are only legitimate insofar as they facilitate production. I'm reminded of the tired conversation in which one can be trapped when someone says that of course "gold is actually worthless because you can't survive off of it." Never mind that people will trade you stuff for it. Yes, financial products are intangible, but a lot of legitimate products forming portions of our economies are. The question is, how much should financial innovations have transformed and expanded our economy? I take it to be possible both that certain advances like securitization represent real economic accelerators and that this technology can be dangerous and abused.¹

A second point of disagreement concerns how finance has affected the priorities of managers. Lin and Neely think that the forces of financialization, through the growth of capital markets, have led managers to prioritize the interests of shareholders to the exclusion of the interests of customers, workers, and other stakeholders. The clear implication is that this is a bad trend and represents a corruption of firm governance by finance.

Historically, I certainly agree that the ideology of shareholder primacy ascended within firms in the era under discussion. Mechanisms and incentives were created to

¹ I will say, too, that I do fully agree about the valuelessness of the leechlike side of finance, as when profits are derived from unnecessary fees.

check managers and ensure greater alignment between the interests of managers and shareholders. And these interests were a key driver in behavior that has been massively disruptive for workers and communities. Where I disagree with Lin and Neely, or at least where I balk, is at the un-argued-for insinuation that this represents a distortion or corrupting influence of finance. Even if we take for granted that the overall economic effects of this ideology are negative, this alone is not a sufficient argument against shareholder primacy as a managerial philosophy. As readers of *BEQ* will be well aware, shareholder primacy is a view typically grounded in the property rights of shareholders, or the vulnerability of shareholders—not necessarily in its overall economic effects. Lin and Neely fail to respect the fact that there is an ongoing good-faith debate about whether corporate governance *should* be this way.

I expect that shareholder primacy is wrong when taken to entail the singular objective of managers to pursue shareholder wealth maximization. However, there are more plausible and less extreme views that would still license the changes to corporate governance to which they object. We may think that managers still have an obligation to pay shareholders at the cost of equity (Sollars & Tuluca, 2018), say, as long as that price is fair (Silver, 2019). In any case, I imagine most business ethicists will not think that managers should be totally *unbeholden* to shareholders. So, this is cause for a longer discussion about how shareholders themselves may have obligations to influence firms or be liable for failing to do so.

When shareholders see through their obligations and managers appreciate both the long-term interests of shareholders and their obligations to other stakeholders, it is much less clear that the influence of capital markets will be negative. In the closing pages of the book, Lin and Neely acknowledge some of these points, recognizing the powerful position that investors can leverage for good. But they fail to see this as an appropriate position for finance. Instead, they read as offering recommendations for who should do what in our nonideal circumstances.

As a final point of disagreement, I want to take issue with Lin and Neely's understanding of where we were *before* financialization and of the inevitability of financialization. At a number of points, Lin and Neely suggest that financialization involved an upheaval or undermining of a "capital-labor accord" that existed for much of the middle of the twentieth century. As they say,

the capital-labor accord refers to an agreement and a set of production relations institutionalized in the late 1930s. . . . The accord assigned managers full control over enterprise decision-making, and, in exchange, workers were promised real compensation growth linked to productivity, improved working conditions, and a high degree of job security (45).

Given this understanding of economic history, it is not surprising to read financialization as a breaking of that agreement to the disadvantage of workers. Moreover, Lin and Neely maintain that this breaking of the agreement was not inevitable—it was the product of deliberate decisions and political pressure applied from those with an interest in financial markets.

My initial reaction to this understanding was simple incredulity. Sure, there were literal deals made with unions, but it just seems odd to construe the relationship between capital and labor generally as at any point involving a kind of conscious agreement, made for the betterment of society and ultimately betrayed by financiers.² Surely the long history of capitalism is one of confrontation, subjugation, exploitation—not collective decisions made for societal benefit. There was at best just a certain homeostasis, rife with tension, that was particularly good for workers for a time. But that homeostasis took certain conditions to obtain, and those conditions changed.

I am also unconvinced by Lin and Neely that those conditions would not inevitably change. It may be that particular individuals are responsible for working to destabilize unions or for applying undue political pressure for deregulation. Maybe those individuals could have behaved differently. But is the claim really that we could have avoided the massive upheaval of globalization? And even if we could have, should we have?

We cannot try to answer these questions here; however, recognizing them does point to a more fundamental disagreement over the right attitude toward finance. Lin and Neely think that finance has far outgrown its value, distorting the market along the way. Given this view, it certainly would seem appropriate to resent financialization and those engaging in it. Moreover, one might hope to definancialize in an attempt to bring us back to the halcyon days when unions were strong and you didn't have to start building credit as a teenager.

However, I find that I am not as resentful of finance's position in the economy nor as nostalgic for days long past. Unfortunately, I feel resigned. I think that the value of finance may justify a fair bit of its growth, and I take that growth to involve changes to the market that will benefit some and be disastrous for others. Though my picture does not paint finance quite as nefariously, I do not take it to justify the resulting growth in inequality. So, I will end by reaffirming an agreement with Lin and Neely: such inequality must be redressed, and *more finance* may be a poor way to do it.

REFERENCES

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² It is clear from Lin and Neely's citations that the capital-labor accord is a known item of discussion within sociology. However, as far as I can tell, even their references portray this accord really more as a way things were for a time—how the production relations happened to be organized—not as a conscious or general agreement (apart from the union agreements that became standard). See also McIntyre and Hillard (2012), who explicitly argue that the language of “accord” is misleading insofar as it gives this impression, and for the reasons toward which I gesture.

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