The Circulation of Financial Elites

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Abstract

The focus of this chapter is on the process of financial elite formation and renewal, the means by which a rising elite mounts a challenge to an established financial order and how, in turn, an incumbent elite responds to that challenge by reinventing itself anew. In the contemporary period, that process has foregrounded the practical ability of a new constellation of financial elites to rewrite convention and practice in spatially innovative ways. What both old and new elites have in common, however, is the ability to exercise their power in skilful ways, whether combining inducement with established authority or artful persuasion with conscious manipulation, all of which are best summarised under the heading of dissimulation: the ability to present yourself as you actually are, without revealing all.

Keywords: elite formation, financial elites, offshore spaces, pragmatism, dissimulation

Introduction

Vilfredo Pareto's early 20C work on the circulation of elites is not particularly fashionable these days, in large part because of its elusive definition of elite groups and the historical generalizations upon which they rest. While such shortcomings are well known (Bottomore, 1964; Scott, 2008; Zetterburg, 1991), Pareto's name is nonetheless one of the first to be invoked when the identification of elites and their changing fortunes is the topic under discussion. That, I would maintain, is principally because his work focuses on the *process* of elite formation and renewal, rather than on the *position* of elites and their social standing. If much conventional thinking on elites has been preoccupied with their shared characteristics, common backgrounds and privileged networks, Pareto (1901, 1916), in contrast, focussed on how rising elites challenged an existing order and how established elites responded to such challenges. Such a framework is timely, given the clash of privatised elites currently under way in both the United States and parts of Europe as different social groups attempt to rewrite the rules governing behaviour and exploit recent economic shifts. In this chapter, that dynamic framework is used to explore the contemporary circulation of financial elites, with the City of London as the main backdrop.

The stock version of the post-war clash between traditional financial elites, the City of London's merchant bankers in the main, and their more market-orientated brethren highlights the 'end of gentlemanly capitalism' as the turning point (Augar, 2000; Cain and Hopkins, 1987). On this view, the relaxation of trading barriers heralded by London's 'big bang' reforms in the mid-1980s, the liberalisation and deregulation of financial markets, and the arrival of US banks with their more flexible working practices, all combined to push aside an incumbent elite. In its place were liberal elites more at ease with free markets and fee-based transactions, than one dependent upon trust and social standing (Kynaston, 2001). In this version of events, the circulation of financial elites more or less involves the replacement of one by the other; one set of interests displaces that of another. That version, however, is not one that I believe Pareto would have been keen to sign off on.

For Pareto, the circulation of elites over time was arguably less about the wholesale replacement of one social group by another and more the fallible attempt by established elites to accommodate the new interests which threatened them. Elite formation and renewal, in today's world of finance, would thus more likely foreground the challenge represented by the singular practices of hedge funds and private equity firms, brokers and dealers alike, and, in turn, the response by established financial institutions to incorporate such ways of behaving (Savage and Williams, 2008). The challenge to convention, the attempt to rewrite the 'rules of the game' in their own interests, in Pareto's thinking is the hallmark of a rising elite, as much as adaptation and mutation are for threatened elites seeking to maintain their position of advantage. On both sides, then, power, as I see it, represents more a provisional achievement, an exercise to gain or hold onto advantage, than a fixed attribute conferred by a skewed system, in this case a financial one.

The focus on power as something generated by the application of resources and skills points to its *practised* quality, in so far as elites of any kind may misuse or misapply resources and in so doing find that their challenge has either evaporated or their ongoing influence considerably diminished (Allen, 2008). For Pareto, it seems much depended on the ability of a rising elite to mount an innovative challenge to an established elite and, in consequence, the ability of the latter to adapt to such a challenge. In the contemporary period, to my mind, it has been the attempt by a new constellation of financial elites to circumvent regulation which largely characterises the challenge to the old financial order, although arguably only by rewriting convention and practice in *spatially* innovative ways. The raising of credit beyond the reach of the regulated financial system, the rise of shadow banking and the invention of techniques which serve to mask its operation, all appear to require the use of spaces outside the system in order to flourish. On that basis, it is the innovation of 'offshore' jurisdictions, of spaces 'elsewhere', as Ronan Palan (2003) describes them, that effectively posed a challenge to the existing financial order, and to which established investment banks and the like have had to respond. It is the nature of that response, I believe, which tells us much about the contemporary circulation of financial elites.

In this chapter, I first set out what I think is helpful about Pareto's account of the circulation of elites that can shed light on contemporary financial elite formation and renewal. In particular, his contention that rising elites mask their own interests by mounting a challenge in the name of 'the many' is one dimension considered, as is the inventiveness of such elites to undermine existing authority and practice (Zetterburg, 1991). Following that, drawing upon the work of Mike Savage and Karel Williams (2008), I focus on the powerful role of new elite intermediaries who bridge and broker financial connections to undermine those of a more conventional nature. I then go on to outline the challenging spaces of finance opened up by such powerful intermediaries: 'offshore' spaces used to place transactions out of reach of the regulatory authorities without wholly undermining them or, indeed, the interests of established investment banks keen to take advantage of such jurisdictions.

What both new and old players have in common, I would maintain, is the ability to exercise their financial power in skilful ways that are best summarised under the heading of *dissimulation*: the ability to present yourself as you actually are, without revealing all that there is to know about your motives and intentions.

Elite Formation and Renewal

These days nobody is likely claim that Vilfredo Pareto's *A Treatise on General Sociology* (1916) is a good read. A voluminous work of rambling proportions, first translated into English in 1935, and then again as a two-volume edition in 1963, its account of elites and their circulation has long drawn criticism for its inflated characterisations (Bottomore, 1964; Ginsberg, 1947; Scott, 1990). A shorter introduction by Pareto, *The Rise and Fall of Elites*, published in 1901, foreshadowed many of the themes outlined in the *Treatise*, although that too attracted similar criticism, in the main for its generalisations around cyclical historical change. Both texts, though, are consistent about one thing: that the circulation of elites over time is a process that for the most part involves an established elite responding to the challenges of a rising elite, where the former attempts to stave off the latter through incorporation, whether that be through the recruitment of new social groups or the accommodation of their interests (Bongiorno, 1930).

There is a dynamic to the encounter, where a challenge brings forth a response, which I think provides a framework for understanding how existing elites, be they political, social or economic, seek to adapt to change and if unsuccessful suffer a decline in their influence as a consequence. By that, I do not wish to resurrect Pareto's cyclical view of historical change or his account of psychosocial residues, but rather draw upon the framework to explore a contemporary instance of the circulation of elites; namely that of old and new financial elites in post-war London. Not, I should stress, as a wholesale replacement of one group by another, but as a process that requires us to grasp, first, how *challenges* are mounted by elites, in whose name and with what inventiveness, and, second, how established elites *respond* to such provocations, and the extent to which they mutate and reinvent themselves in the process.

Challenging an established elite

For Pareto, a new elite which mounts a challenge against a prevailing elite, either to supersede or displace them, does

'*not admit to such an intention frankly and openly. Instead it assumes the leadership of all…, declares that it will pursue not its own good but the good of the many; and it goes to battle, not for the rights of the restricted class, but for the rights of almost the entire citizenry* (1991 [1901], 34).

A rising elite, in other words, does not mount a challenge in its own name, but in the name of 'the many', for the benefit of all, even though they themselves may have most to gain from such a challenge. In today's parlance, this amounts to a form of populism, where emergent elites claims to represent the wider interest and mobilises rhetoric to that effect. The values of established elites are brought into question, challenged for their legitimacy, and their authority actively undermined. The clash between traditional and more liberal, market-orientated financial elites in the City of London in the 1980s resembled this populist challenge; where the efficiency and legitimacy of 'the market' was championed and the cosy cartel of British banks based upon a trust-based culture seemingly cast aside (Kynaston, 2001). More importantly, this form of 'market populism' sets itself against the very idea of elites, so that those attempting to undermine the interests of traditional elites deny their own elite status (Du Gay, 2008). Indeed, much the same can be said today, when 'ordinary' wealth elites frame their success in terms of merit and hard work, not privilege or exclusivity (Savage, 2015). International banks and private finance companies pushing for a free market in financial services in the decades before did so, in that regard, as an 'anti-elite elite' (Walden, 2001).

The success of such a challenge, however, can be measured by how far non-market values in the transaction of financial services have been crowded-out by such 'market populism'. In practice, relationships of trust and personal ties did not wholly disappear with the onset of 'big bang' and are perhaps best understood as reframed through the internationalization of the City that gained momentum from the late 1950s onwards as the Euromarkets took off in London (Coakley and Harris, 1983; Norfield, 2016). The arrival of US and European banks to participate in London's growing Eurodollar business well before financial deregulation heralded a shift towards a more instrumental market culture, in part because the Euromarkets themselves operated outside of UK banking regulations. By the 1970s, foreign banks were a firm feature of the City's landscape, initiating a certain kind of commercial expertise and professionalism different from earlier forms of 'gentlemanly 'conduct, but not without utilising their own personal ties and networks (Thrift, 1994). They were part of a wider range of actors shifting the City's business away from sterling towards financial intermediation and transaction-based trading; a shift that ushered in new markets and opportunities that, significantly, both old and new participants sought to turn to their advantage.

Challenging convention in the name of the market, opening up new avenues of financial business based on free market trading and self-regulation, dovetails with Pareto's thinking about how rising elites deflect their own self-interest when pushing for change. A further dimension to such a challenge, however, and one also explicit in Pareto's thought, is that emergent elites confront an entrenched elite by coming up with new ways of doing things, novel techniques and ideas which attempt to circumvent or undermine existing authority and practice. Innovation, that is not for its own sake, but rather as a means of challenging existing custom and practice. Or, put another way, innovation as an attempt to rewrite the 'rules of the game' so that conventional ways of doing things look outmoded, inefficient or simply misguided. For incumbent elites, the challenge in this case comes not so much from an assault on their values and ideals, as from the development of new techniques and practices that promise greater things.

Of course, on that basis, it can be argued that the removal of barriers between the City's banking, investment and trading activities in 1986 amounted to just such a challenge. Indeed, London's 'big bang' reforms were significant for the introduction of practices which enabled financial companies to operate at a global scale, doing away with the partnership model of the old investment banks and the restrictions on buying and selling securities (Augar, 2001). 'Worthy' British institutions, the likes of Morgan Grenfell and Cazenove were swallowed up by US and European banks, with Citigroup, JP Morgan, UBS and Deutsche Bank leading the rush. The demise, as noted, of what was effectively a cosy financial cartel certainly ushered in new global business practices that challenged convention, but arguably the promise of better things came more from the financial innovation in techniques designed to reduce uncertainty in the marketplace and the rapid growth in the securities industry (Pryke and Allen, 2000; Wojcik, 2011, 2012a).

Susan Strange (1998) was among the first to recognize that financial innovations, devised by bankers, brokers and dealers in the 1990s to manage risk in new ways, changed not only the financial 'products' they had to offer, but also the balance of financial power. On the back of rapid turnover in securities trading, the crucial intermediary role played by banks grew in significance to draw in a host of financial actors alongside investment banks, from private hedge funds, private equity firms and other 'boutique' financial companies to independent broker-dealers and asset managers (Eturk et al, 2008; Pike and Pollard, 2010). In the 1990s the proliferation of financial players eager to act as a go-between for those willing to lend money, and those looking for money to borrow, was matched by ever-more sophisticated techniques for managing risks associated with the accelerated volume of borrowing and investment (Bryan and Rafferty, 2006; Montgomerie and Williams, 2009).

What was significant about this growth in transaction volumes and the demand for new financial products that hedged and distributed risk was that much of it took place outside the regulated banking system, off the balance sheets of institutions, in what had yet to be named as the shadow banking system (Fein, 2013). Much like the Euromarkets, the ability to side-step territorially-based regulatory controls gave the new financial players a competitive edge over their regulated rivals. The ability to circumvent financial regulation in this manner posed a clear challenge to the prevailing financial order, as the 'rules of the game' shifted to encompass new forms of credit creation, new ways of increasing liquidity in the system, and, as we shall see, novel ways to offset the risks that accompanied the longer and more complex chains of intermediation.

Perhaps more surprising than the latest manoeuvres to by-pass the rules of financial regulation was the fact that the big investment banks, far from maintaining the established regulatory order, in many instances, were actually the driving force behind the processes of innovation (Hall, 2009). If the banks themselves performed an established elite role in comparison to their smaller dynamic bretheren, that role revealed less than the sum of their activities. For investment banks adapted to the challenge of the new circumstances and mutated from their staid past, not only by accommodating new financial interests and their more flexible set-ups, but also it seems by actively orchestrating the new 'game' to suit their own interests.

Elite response and reinvention

When the rules as well as the 'game' by which elites prosper come under threat, Pareto broadly spoke of two possible responses: either consolidation where existing elites seeks to preserve what they have or incorporation where the threat of the new is assimilated through recruitment of new social groups and their members (Pareto, 1916). Consolidation carries the danger that an elite's ability to hold onto its advantages could be eroded or lost should they close themselves off to change, whereas the incorporation of new interests acts as a kind of safety valve for an incumbent elite. It would appear that, for Pareto, the latter adaptive response is the more common, where the accommodation of new groups and new ways of doing things by existing elites represents an opportunity that can be turned to advantage (Busino, 2000). The circulation of elites over time, on this view, represents more a process of reinvention and renewal rather than simple replacement, where an established elite *'like the sunflower – they turn to the side on which they hope to gain* (1991[1901], 99).

In the case of today's investment banks, it could be argued that they have sought to renew themselves through adaptation to the new forms of risk management, where the big players like Citigroup and JP Morgan have turned their attention to the derivatives business and the need, for example, of multinational corporations for interest rate swaps and currency hedges as part of their normal business. Their growing market in repackaging and reselling an array of potential risks has led to the incorporation of both hedge funds and smaller, non-bank financial institutions, so much so that the lines between old and new players is far from clear cut. The blurring of organisational arrangements is such that the bank holding companies sponsor and advise any number of hedge funds as well as money market funds, and continue to assimilate broker-dealers and asset mangers into their operations (Fein, 2013). Indeed, up until the financial crisis in 2008, the banking institutions were also major participants in the securitisation of assets and the invention of new ways to keep transactions off their balance sheets to avoid regulatory oversight of the risks involved.

The brief appearance of Structured Investment Vehicles (SIVs) in the early 200Os is perhaps a testament to such opportunistic invention, one largely driven by investment banks (Wojcik, 2012a). Invented as a means of conducting familiar credit spread banking off the balance sheets of the banks, SIVs rolled together characteristics of traditional banking, hedge funds and securitisation into one, so that it became possible for them to borrow short and lend long to funds outside of the regulatory banking system. The assimilation of traditional banking practices with those of the non-banking financial sector, in this instance, represented a turn, so to speak, on the part of the investment banks to take their activities into the shadows as a means of holding onto what advantages they have, as well as realising the prospect of further gains.

In a similar vein, Sarah Hall (2009) has shown how investment banks operating in London not only adapted to the new financial climate, but also reinvented themselves in the process. Old style investment banking focused on relationship-driven corporate finance more or less continued after the big bang reforms of the 1980s, although by the 2000s their traditional mergers and acquisitions business had increasingly come under threat from smaller, 'boutique' financial firms (Hall, 2007). In response, investment banks turned their attention to the growing opportunities in trading securities opened up by the increased demand from institutional investors, including trading in their own right (see also, Folkman et al, 2007). This shift in the source of their revenue and profits, as indicated above, also took the banks into areas previously outside their mode of operation, deeper into the riskier chains of intermediation, much of which lay out of sight to the regulatory bodies. Adaptation and assimilation in this instance, driven by the need to maintain profitability, arguably produced a response that effectively transformed a number of investment banks into multinational banking and financial service holding companies whose power rests upon their ability to forge and hold together connections across the different worlds of financial activity, both governed and ungoverned. Their process of renewal, as 'financialised elites', to draw upon Hall's description, in that respect is one that Pareto may well have recognised.

The Power of Financial Elites

Hall's (2009) description of investment bankers reinventing themselves is justified through her depiction of them as key actors at the centre of the financialisation process, choreographing the actions of other financial players involved in derivatives trading, structured finance and the securitisation of assets. The ability of such elites to mobilise and align the activities of hedge funds, asset managers and the like to manage risks associated with the increased volume of trading and investment suggest that they draw their power, not from personal ties or shared educational and cultural background, but from the actual process of mobilisation itself. Power, on this view, is produced by, not conferred on, financial elites. Where studies of elites have tended to focus upon *who* the elites are, their position at the apex of economic, political and cultural hierarchies (Mills, 1956; Stanworth and Giddens, 1974; Scott, 1997), the shift in emphasis here is towards *how* elites achieve and maintain their position of advantage (Konings, 2010)

This more pragmatic approach to elite power chimes with the work of Savage and Williams (2008) on new mediating elites, whose power, they argue, stems from their ability to forge connections, bridge gaps and stabilise interests so that associations hold together. In a conscious rejection of the idea of a single, unitary power elite, they identify the process of financialisation as an entry point for understanding changing elite formation in the present day. Elite formation, for them, revolves around the rise of new groups of intermediaries, mainly but not exclusively involved in the business of finance, who are able to broker relationships for their own ends and organise others to meet their shared interests. Investment bankers are identified as one such group of elite intermediaries, albeit in a reinvented mould, who work loosely with others to bridge previously separate and unconnected elements that open up new ways of doing things that have the potential to challenge convention and practice.

In the context of the circulation of old and new financial elites in post-war London, and the framework of formation and renewal adopted here, I want to show how Savage and Williams' focus on the rise of new financial intermediaries is best understood as part of a challenge to the old regulatory order, one that required the opening-up of a shadow banking system to rewrite the rules of the traditional money-making game.

Challenging the regulatory order

Shadow banking, as an economic description, conjures up the impression of a parallel universe of bank-like activity and, whilst true to a certain extent, its shady character stems more from the fact that its activities are not regulated. Many of the innovative forms of managing and offsetting risk or borrowing short and lending long mentioned earlier take place between financial intermediaries in the shadow banking world simply because that is where regulatory oversight can be best avoided. Estimates put the total activity of the shadow banking economy at around a quarter of the global financial system (Financial Stability Board, 2015; Economist, 2016), although its functional significance far outweighs its size. Unlike traditional banks, those operating in the shadowy world of finance raise their funds from investors and rotating lines of credit, and do much to help create liquidity in the global marketplace. Shadow banking is a lucrative business for those who operate within it, largely because neither its risks nor the leveraged sums involved are transparent or underwritten in the traditional banking manner. In other words, the hedge funds, asset managers, broker-dealers and money market funds do not play by the same rules of the conventional banking game.

But, as stressed earlier, these new financial players did not simply challenge the old order from outside the system; many have been incorporated into the operations of investment banks working at arm's length from the banks proper. Many are tied in directly as subsidiaries and affiliates or indirectly through sponsoring and advisory arrangements (Froud and Williams, 2007). The connections are such that the bank holding companies, as much as their unregulated allies, are integral to the operation of the shadow banking system and require one another for the financial system as a whole to grow in terms of investment and credit flows (Pozsar et al, 2010; Fein, 2013). An old, or rather a reinvented, financial elite, together with new groups of financial intermediaries, came up with novel techniques and ideas which circumvented existing custom and practice, more or less in full view of the traditional banking authorities. Hiding in plain sight is perhaps a better description of events than hiding in the shadows, where the new rules of the game are there for all to see, even if the consequences of adopting them are not.

The ability to play by a different set of rules which this challenge effectively represents points to a different basis upon which the power of London's financial elites rests; namely, their ability to forge new associations and hold them together for a given outcome. Extending Savage and Williams (2008) formulation, the novel financial connections made today are more likely to be ones that stretch across regulated and unregulated sectors of finance, ones that hold in place the complex chains of intermediation that weave in and out of the shadows. Power, on this view, is thus something *sustained* through extensive interaction and is itself an effect *generated* by the relationships mediated through the actions of new (and renewed) financial elites (Allen, 2010a). As mediators, they bridge connections in ways that owe little to cultural background or shared privilege and more to the 'work' of making connections: applying resources and expertise to bring people together, managing interactions at-a-distance, and foregrounding skills that have more purchase in open, distanciated networks. The looser nature of the mediated couplings draws attention to the adaptive, less formal quality of the ties among the different groups of professional elites that inhabit both governed and ungoverned worlds of finance.

The impression gained is not one of a tightly knit set of relationships, but rather one where connections often have to be informally brokered, where intermediaries doing similar or different financial tasks may be brought into alignment by third parties. Moreover, by bringing into alignment people and practices previously separate, the potential for innovation around products and ways of managing risk is claimed to be greater (Burt, 1976, 1992). Investment bankers, as suggested by Hall (2009), may perform this role, but equally likely the initiative could arise from within the ranks of the new financial elites through their dispersed networks and business collaborations. Mediating professionals, hedge funds and asset managers, as much as lawyers, advisors and placement agents, can act in a third party role, drawing upon their organisational resources and know-how to enrol others into arrangements that hold out the potential of gains for all involved.

The resulting formation is less a unified or cohesive financial elite, but rather, to borrow from Mike Savage's (2015) study of the contemporary elite class, an elite 'constellation' where an alignment takes place between groups of intermediaries through their transactional interplay. Savage is keen to stress the differentiation between professional elites and the interplay which, in many ways, defines them (see also Folkman et al, 2007). Taking inspiration from the work of Pierre Bourdieu

(1996, 2005), he draws attention to the different 'fields of power', the practices and conventions that make up the rules which different elite groups abide by in their daily routines. When the traditional 'field' of banking was challenged, as arguably was the case with the opening-up of the shadow banking system, the new rules on risk management and liquidity effectively fractured the old regulatory system. What the shadow banking world enabled was a context in which the new riskier practices could be tested and which, significantly, drew the big banking groups into its orbit, enticed by the possibilities for financial gain that the lack of regulation offered (Bryan et al, 2016). As part of an elite financial constellation, they can be seen to have exercised their power *with* rather than *over* others, lured by the prospect of positive-sum gains to great to pass up (Allen, 2010a; Savage and Williams, 2008).

The powers of association

In that respect, the forging of new associations across the regulated and unregulated sectors of finance can appear to work to the mutual benefit of all parties concerned. Positive sum games, the promise of a 'win-win' situation, as such, has an obvious appeal. After all, nobody in the shadow banking world need be compelled to join a positive-sum game, in so far as the prospect of likely gains is sufficient inducement. Leverage, on this broadly Latourian (1986) understanding, is achieved through the powers of association, through the continuous translation and channelling of interests, rather than by recourse to imposition and constraint. Nothing, though, is guaranteed, and a positive outcome is predicated upon the effectiveness of the 'work' that is put in by those mediating the financial transactions. Translation and brokerage skills are thus at a premium, as are the powers of persuasion, subtle inducement, and the ability to impress upon others that they cannot get what they want by themselves (Allen, 2003). The tie-up between banking and the new financial elites has elements of all such registers of power, and all appear to have played a part in mounting the challenge to the old regulatory order (Froud and Williams, 2007; Golding, 2003).

Intriguingly, what passes for power in this shadow set-up is rarely the kind of power that bends the will of others to gain advantage or seeks to dominate all and sundry. In no small part, this is because the power exercised by financial intermediaries is largely directed at making things happen: making deals happen, aligning interests and brokering outcomes (Folkman et al, 2007). This is a type of facilitative power, one that looks innocuous enough, yet tends to obscure more instrumental goals; goals that are delivered by the exercise of power in quieter, less overt ways that turn open-ended situations to practical advantage without recourse to displays of domination or constraint. In many respects, it is the modest nature of such actions that underpins their strength; something that Niccolo Machiavelli knew a thing or two about (Del Lucchesse, 2015).

Indeed, Pareto drew explicitly upon the work of Machiavelli to show why existing elites needed to exercise different measures of persuasion, manipulation and cunning if they were to turn challenging situations to their advantage (Pareto, 1916, Scott, 2008). The dissembling qualities required of those needing to show a different face to meet a world constantly changing is there in Machiavelli's text, *The Prince*, and Pareto alludes to such qualities as part of an adaptive response on the part of an existing elite seeking to hold onto its privileges. Today's elite financial constellation, choreographed largely by investment bankers, on that view, may be held together through the promise of positive-sum games, yet actually conceal to one or more parties the skewed nature of the shared rewards. Through such acts of dissimulation, the 'power to' bring a set of varied interests into alignment may mask the fact that not all transactional returns are of equal value, and those orchestrating the arrangement may benefit disproportionately (Allen, 2010a)

That said, although the transactional interplay between the different groups of professional elites may not amount to an equal-sum game, the rules that they now play by do nonetheless recast much of the traditional borrowing and lending functions in their collective favour. The challenge this represents as a whole comes at the expense of those who benefit from tighter national regulation of banking and finance; namely, governments and taxpayers who have lost out from the new game of shadow banking and its off-balance sheet transactions. The lack of disclosure and information about the transactions conducted or the value of the assets involved, as well as the opaqueness of the ownership structures in the shadow banking world, all work to circumvent jurisdictional oversight and point towards *how* the new constellation of bankers and brokers have reproduced their power and advantage in financially novel ways (Allen, 2010b).

The ability to place such financial transactions out of regulatory reach, however, also brought to the fore a different set of innovations, innovations more *spatial* than technical. As part of the challenge to the traditional regulatory order, fictional spaces where shadow banking could operate without fear of lawful reprisal were, literally, produced. Those fictional spaces are what we know today as 'offshore' finance (Picciotto, 1999; Roberts, 1994).

Challenging Spaces of Finance

When Pareto spoke about the use of innovation to challenge existing custom and practice he certainly did not have spatial innovation in mind, but that is precisely what the new financial elites have put in place to challenge the conventional money-making game. The invention of 'offshore' spaces of finance, the Cayman Islands, Jersey, the British Virgin Islands, Monaco, Panama and Delaware, to name but a few, represents a novel fiction; one that enables those that inhabit the shadow banking world to be registered 'elsewhere' for operational purposes, and thus to be unaccountable and out of reach of the established financial authorities. Such spaces are obviously actual locations, but their specific geography, even the fact that they are not all, in any sense, 'offshore', is beside the point. Their significance is that they lie outside of the regulated financial system and pose a challenge to that system because they operate under a different set of legal and financial rules (Hudson, 1999; Picciotto, 1999).

The 'offshore' spatial fiction itself is a topological one (Allen, 2016). No disguised caches of money actually move between, say, London and the British Virgin Islands, or New York and the Caymans; rather the financial transactions are merely recorded outside the domain in which they actually take place. The distances involved are relational, not metric; they are composed of the ties made between the operation, transaction and registration of the financial deal. More importantly, the novel financial connections forged between regulated and unregulated sectors of finance require the invented spaces of the ‘offshore’ world to enable shadow banking to flourish. Without such a topological fiction, investment banks, broker-dealers, hedge funds and the like would have been unable to take on the kinds of unsecured risk that gave them a competitive advantage over their traditional counterparts.

Significantly, the majority of ‘offshore’ relationships put in place are not illegal; they are merely the legal means by which previously unconnected parts of the globe are aligned for the explicit purpose of regulatory avoidance (Palan, 2003) For the most part, the transactions involved are indeed opaque and lacking in transparency, lost behind obscure corporate ownership structures, but few represent anything prohibited. Rather, they represent part of the challenge by a new elite constellation to the old financial order, one that involves the exercise of power to manipulate legal geography for their own ends. Dissimulation, not dishonesty, I would contend, is to the fore where rather than anything being fully obscured, less is actually revealed about the self-enriching nature of the spatial arrangements in play. Quieter registers of power are at work it seems than the constraining efforts of domination or the imposing acts of authority and rule (Allen, 2011; 2016).

Invented spaces

Contrary to what is conventionally believed, ‘offshore’ spaces of finance did not come about simply as a means to avoid or evade taxation (Palan and Nestetailova, 2014). Such spaces owe their existence to the development of the Euromarkets in London in the 1950s, described earlier, which required a novel space in which to conduct transactions in currencies other than that of the host market (Shaxson, 2011). While the UK authorities were looking the other way, so to speak, US banks in London in particular took full advantage of the fact that the ‘offshore’ status of the

Euromarkets enabled them to behave as if they were conducting business ‘elsewhere’; that is, beyond the regulatory reach of the US authorities. The ‘elsewhere’ in question, a legal fabrication, offered a location free from any kind of political regulation or interference by a banks own governing authority (Picciotto, 1999). Without the customary constraints of keeping sufficient reserves to meet potential withdrawals and other imposed trading restrictions, banks operating in the Euromarkets thrived on the competitive advantage (Palan, 2003). The purpose served, as indeed is the case for all of today’s offshore financial centres, was to take advantage of the gaps in a regulatory geography that is territorially based.

The invention of ‘offshore’ financial spaces created a looser jurisdictional arrangement, not only cheaper to operate within and with well documented tax advantages (Urry, 2014), but also one the enabled the raising of funds, the securitisation of debt and the reworking of credit, to take place without the scrutiny and restrictions of a sovereign regulatory body (Norfield, 2016). The boost to investment and credit flow that these new ways of increasing liquidity represented posed an obvious threat to established ways of doing things. Yet, as the ‘rules of the game’ shifted, the promise of rewards too great not to want soon witnessed investment banks, as noted earlier, rising and adapting to the challenge. The formation of structured finance departments within investment banks, their organisational tie-ups with hedge funds and other non-bank actors, outlined before, were all part of their mutation, one that required the use of ‘offshore’ spaces to accommodate the growing investment demands of pension and sovereign wealth funds (Wojcik, 2012a&b). No longer quite the challenging spaces of finance they once were, today offshore financial centres have been incorporated into the financial system as a whole, albeit on a seemingly arm’s length basis.

The arm’s length nature of the offshore arrangement, however, should not be regarded as merely a geographical description; the distance itself is integral to the spatial arrangement in that the connections between financial and offshore centre necessarily span more than one jurisdictional space. The digital transactions registered as having taken place in a location jurisdictionally different from the one in which the actual deal was conducted is a key fictional component of 'offshore' finance. That fiction is what enables financial transactions to be placed beyond the reach of a regulatory regime that would otherwise throw a spotlight upon them. There is nonetheless a form of continuous exchange between what happens in the different locations, one that works along topological lines in the sense that the distances traversed are purely relational, intensive rather than extensive (Allen, 2016).

In the case of a securitisation deal put together in London, for instance, it would first have to be detached from its actual location, wrapped perhaps in an 'investment vehicle', and re-embedded within an 'offshore' jurisdiction such as the Caymans in order to avoid regulatory oversight. What is kept off the balance sheet of an investment bank as a separate legal vehicle, in this way, is further displaced by its registration 'offshore' (Wojcik, 2012b). In effect the deal is folded out as a legal entity from one domain to another, yet in practice nothing actually moves between them. Topologically, it is as if the transaction itself fills out the space between 'here' and 'there'. Much like the two-sided Mobius strip, the financial relationship is given half a jurisdictional twist so that it spans both jurisdictional authorities in one continuous loop. The manoeuvre, the jurisdictional twist, brings both London and the Caymans into relation without losing what is distinctive to each domain (Allen, 2016).

Powers of reach

Such spatial manoeuvres represent a novel way of doing things designed specifically to circumvent established authority and practice. The use of space, the alignment of financial and offshore centres, arguably is itself an achievement on the part of the new elite constellation whose members have worked to bridge previously separate domains in order to place certain transactions beyond regulatory reach. Reach, on this understanding, is not something that leverages itself; it is *enacted* by banks, investment houses, and financial intermediaries. In hindsight, the presence of offshore islands of finance may look as if they were always there ready to fulfil their role of regulatory circumvention, but were it not for the adaptable means and innovative methods of emergent financial elites such island spaces would never have become an indispensable part of the contemporary financial system (Palan, 2003). The financial 'gaming' involved is thus a testament to the exercise of their powers, both to challenge an existing order and to skew rewards in their favour.

The manipulation by elites of legal geography for their own ends is perhaps the most obvious exercise of power involved, where the masking of where an actual trade takes place involves a degree of concealment. The opaqueness of many of the 'offshore' arrangements has already been alluded to, but this is not really because what goes on 'inside' has to be fully covered up in some sense. The simple fact is little actually goes on inside offshore financial centres, only the registration and recording of accounts (Murphy, 2009). The actual deals take place in London or New York or some other global financial centre, but for that relationship to be masked it helps that what passes for financial activity in 'offshore' spaces is to some extent obscured. Concealment has a purpose in this case, which is to divert attention from the fact that the leverage of debt and the trading in credit and risk instruments actually takes place, not somewhere else, but on home regulatory turf.

Yet, as mentioned earlier, much of this 'hidden' activity takes place in plain sight of the financial authorities. The nature of the concealment, in that respect, is closer to an act of dissimulation than anything more secretive or disguised. Investment banks and private equity funds do not disguise the fact that they earn revenues from 'offshore' trading, nor do accountants and lawyers hide the fact that they extract fees from such deals. Likewise, ratings agencies do not disguise their role in evaluating 'offshore' transactions (Wojcik, 2012b). Disguising one's actions carries the risk of being caught out, whereas not revealing all that there is to know about a deal and its potential rewards enables such actors to be candid about their motivation and role. In consequence, there is little need to hide the fact that the fees and revenues earned act as an inducement, only a need to be less than fulsome in disclosures about the actual rewards or the means by which they were secured.

Dissimulation, as such, represents a more powerful means to engineer financial advantage (Allen, 2016).

Dissimulation, as a form of manipulation, also works well at-a-distance. There is little dilution of impact, principally because those on the receiving end may simply be unaware of the scale of what is not revealed (Allen, 2003). The deception, however, works only for as long as the regulatory authorities decide to go along with it. Already the activities of structured investment vehicles operated by investment banks noted earlier have been curtailed and leverage limits considered for those operating in the shadows (Economist, 2016). Yet the additional sources of credit and investment raised 'offshore' in the shadow banking world provide liquidity to a financial system that arguably would be severely weakened without them. It is perhaps for that reason that the deception of 'offshore' spaces 'elsewhere', free of reserve requirements and tax restrictions, is at all tolerated (Palan and Nestetailova, 2014). What is more apparent is that the acceptance of such invented spaces has altered the 'rules of the game' and obliged both old and new financial elites to play by a set of legal and financial rules rewritten largely to suit the new constellation of financial elites.

Conclusion

At the beginning of the chapter, I set out to show what Pareto's account of the circulation of elites adds to our understanding of contemporary financial elite formation and renewal. A focus on the process of elite formation, the means by which a rising elite mounts a challenge to an established order and how, in turn, an incumbent elite responds to that challenge by reinventing itself anew, provided a clue as to how the post-war circulation of financial elites took shape. Rather than a straightforward replacement of one set of elites by another over the post-war period, the process of renewal, in London at least, as I hope is evident, involved more the mutation of investment banks as they sought to adapt and incorporate a new set of financial actors. The challenge that those actors represented was absorbed, although not without a considerable rewriting of the rules of the financial game, much of it initiated and driven by the investment banks themselves. The promise of greater things held out by the new instruments of debt and risk management outside of the regulatory framework it seems proved too much of an enticement for the big players, and brought the process of renewal full circle.

Such a looping narrative, however, has its own persuasive powers and one could be forgiven for thinking that the process of elite formation and renewal outlined here worked itself out according to some inexorable logic. Pareto himself appears to have succumbed to such a logic and others have certainly attributed it to him (Bottomore, 1964; Scott, 2008)). But that view of events would be to read history backwards and miss the fact that the formation of a new constellation of financial elites represented more a *practical* achievement than anything inexorable; one contingent upon the skilful exercise of their power to engineer financial outcomes to their advantage. It rested largely upon their ability to forge new connections and ties that held in place complex chains of intermediation across both regulated and unregulated sectors of contemporary finance. Central to that achievement, as has been argued, was the ability to open up new spaces of liquidity and risk beyond the reach of the established regulatory authorities; one that required the successful mobilisation of new groups of financial intermediaries unencumbered by existing custom and practice.

As to the actual registers of power in play within this set of events, little, if any, I would venture, involved imposition or constraint, but rather a translation and alignment of a range of interests involving the skills of persuasion and inducement, as much as acts of manipulation and dissimulation. The instrumental nature of such practices are often masked by a facilitative veil, but the *quieter*, more impalpable registers of power in play can be as, if not more, insidious precisely because they may pass unrecognised as a challenge, especially if promoted as part of a 'win-win' situation (Allen, 2016). The power of financial elites, on this view, is not so much a blunt tool designed to bend the will of others, as it is a subtle means of channelling interests towards a given end by bringing into play a diverse set of powerful registers over time. What is distinctive about their combined register, in the case of the post-war circulation of financial elites, is the role that spatial innovation, in the shape of ‘offshore’ finance, played in enabling this new constellation of elites to exercise their powers. Without that *topological* twist, the effectiveness of the rising elite’s financial challenge may never have materialised. But that, it should be said, is not the type of twist that would ever have crossed Pareto’s mind.

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