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The devil is in the detail: lies, damned lies and accounting for the value of banking

Christophers, Brett. 2013. *Banking Across Boundaries: placing finance in capitalism*. London: Wiley-Blackwell

In the normal course of events I imagine that there are few points of contact between the social orbits of scholars of national accounting and investment bankers. However, as this excellent book by Brett Christophers makes clear, bankers should be hosting regular events in honour of the national accountancy community in gratitude for the unglamorous and painstaking work required to formulate measures such as GDP, GNP, and GVA, and in particular for the way in which banking is now recorded in such statistics. In 2010, some 18 months after the breaking of the global financial crisis, Andrew Haldene, the Executive Director for Financial Stability at the Bank of England, drew attention to a statistical curiosity that suggested that even as the crisis unfolded in 2008 the official statistics seemed to suggest that British banks were achieving levels of productiveness not seen since the 1980s. Given the scale of the damage caused in the UK by the collapse of the banking sector, which included a double-dip recession, and the fact that the industry is reliant on a taxpayer subsidy estimated to be somewhere between £30 billion and £120 billion (MacKenzie, 2013), the claim that the industry was making a contribution to the national economy might appear seem to be a little fanciful. It certainly seemed so to Haldene and, in turn, to Christophers, and as such it served as the catalyst for this innovative excursion into the looking glass world of banking and value. The book seeks to explain how an industry in crisis and which had caused such significant collateral damage to the wider economy could, in the official statistics at least, be considered not only to be productive but at the very moment of crisis, to be exceptionally so.

Given the book's motivation, it is not surprising that this is in many ways an academic detective story as Christophers sets off to solve the mystery of how banking killed the economy but, despite all the circumstantial evidence, ended up being exonerated by the official data. Indeed, Christophers displays many of the skills required of a good detective, being both forensic in his approach and resolute in his persistence: his refusal to let claims go unchallenged or data unexamined is an admirable feature throughout.

To solve the productivity puzzle, Christophers explores the history of national statistics, in which the 'banking problem' – how to adequately account for the economic role of banking within an economy – looms large. Arriving at the overlooked field of critical accounting and, in particular, its focus on national accounting statistics and the conceptual struggles over the work that banking does within an economy, Christophers argues that until relatively recently, banking was not afforded much value in such data. Although its role in providing circulation and intermediation was

recognised, banking was seen more as a necessary service for the rest of the economy than an actual contribution it itself. Here national statisticians cleaved to traditional views of the role of money and banking, which can be traced back to antiquity, through and up to physiocratic and political economy understandings of the role of money and finance in the creation of economic value. This remained the case for some considerable time, and it has been only recently that banking crossed the boundary from the unproductive to the productive in such statistics. That it managed to do so was in part a result of the second element of boundary-crossing that Christophers attends to – the internationalisation of banking and, in particular, the arguments made to include banking in the trade discussion from the 1970s onwards that opened up national economies to (mainly US) banks. As the book reveals, it was during this time that the phrase ‘financial services’ itself first emerged, designed to more easily translate what were considered circulation functions into international trade negotiation packages that dealt with services more generally. Thus, it was not until the early 1990s that banking finally entered the world of the productive within the official statistics, with the value of banking institutions being attributed to their disproportionate ability to assume risk by setting interest rates that differed from a nominal background average. The more banks could offer rates that diverged from the norm – which effectively represented their appetite for risk – the more value banks added to the economy. This is a significant and important observation, because as banks productivity became based on their ability to bear risk and to manage it, so it became an incentive for banks to take on riskier assets – that is, charging higher than average interest rates to higher risk borrowers – and to use the additional profits derived from such assets to support higher than average interest rates on their liabilities. Thus, whereas the financialization literature to date has – rightly in my view – attributed the decline in global interest rates from the mid-1990s onwards as a major factor in the accumulation of riskier assets, as banks sought ways of beating the norm to meet performance targets, Christophers reveals that the official statistics also contained within them a feedback mechanism that in effect gave official sanction and encouragement for what they were doing. As banks absorbed more risk, with all that implies, the better they were seen to be performing.

This argument alone deserves a much wider audience, and provides further evidence of how important academic work is to the performance and management of the economy. The debunking of Reinhart and Rogoff’s recent analysis of the relationship between high levels of national debt and low levels of economic growth which, in the words of John Cassidy (2013), has been seized upon by ‘conservative politicians around the world ... to justify penny-pinching policies’, is a particularly good example of this. However, Reinhart and Rogoff’s errors were reasonably transparent, in that they were uncovered by a graduate student who spotted simple omissions in an excel file that the

authors provided in good spirit in order to be helpful. However, as Christophers painstakingly demonstrates, it takes rather more work to find the hidden sources of banking productivity in the national accounting literature and, partly for the same reason, it will also take more effort to bring the skew towards risk to the attention to a wider audience, although that does not mean that it should not or could not be done. The book is yet another example of the explanatory power possible from detailed social and historical analyses of economic ideas and practices inspired by the likes of Callon, MacKenzie and others.

It should be clear by now that I think this book is a major contribution. However, that is not to say that I do not have the odd quibble. Christophers seems very reluctant to engage with the issue of capital mobility. This is partly a result of a strategy to sharpen the analytical lens, and is in some ways understandable, as to cover this issue in at the same level as he does banking would make the book considerably longer than it is and perhaps undermine the power of the banking problem. However, the geographical mobility of money and investment is surely critical to an understanding of banking and financial services as it is the source of much of its power through its fungibility and leverage through financial markets such as foreign exchange and various kinds of securities. On several occasions in the argument begins to move towards the issue of capital mobility but is then abruptly reined in by the author on grounds of remit and scope. One can only hope that this critically important issue of boundary crossing is dealt with in subsequent publications. It is rather difficult to 'place banking in capitalism' without a consideration of this matter. Finally, I also have to take issue with the author's framing of my book with Nigel Thrift, *Money/Space* (Leyshon and Thrift, 1997), which he accuses of being dismissive of a material approach in favour of a discursive one, and that we 'depicted matters in either/or terms' (*Banking Across Boundaries*, page 12). Christophers upbraids us for this, arguing that what we need to do is 'critically to analyze the material motions of capital *and* ... to understand the work of ideas in framing and constituting the capitalistic environment' (*ibid.*, original emphasis). Christophers' claims about our pro-discursive anti-materialist position seems to derive from the penultimate page of the preface to *Money/Space* in which we state that 'we have thrown away many of the Marxian traces' to move towards a more discursive approach. I would stress the word *many*; that does not mean all. Later, on the same page, we argue that, 'We have become suspicious of accounts that try to make a clear distinction between the economic sphere (to which money is often confined) and other spheres (onto which the economic sphere is too often unproblematically mapped), on the grounds that such a distinction itself often presumes cultural norms which may indeed be constitutive but by no means need to be regarded as inevitable' (Leyshon and Thrift, 1997, page xv). This seems to be much more in accordance with what Christophers argues throughout this book, and I think more

connects the two works than divides them. However, both these points are relatively minor and should not detract from what is clear a major contribution to the field.

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