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Social Structure, Power and Financial Fraud

Elisabeth Brooke Harrington

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BROOKE HARRINGTON ■

IBGYBG

In the beginning, there was "après nous le déluge"—a phrase attributed to Madame de Pompadour, mistress of King Louis XV. It signified an elite's "selfish heedlessness" in the face of financial crisis (Sonnenscher 2007, 1). In essence, it was an expression of power: specifically, the power to bankrupt a country without suffering any personal consequences. Madame de Pompadour, who died decades prior to the French Revolution, was correct in her assessment that she and the king would never be affected by the ruinous debt that he had heaped on France. And if others suffered the consequences? Too bad for them.

Over 350 years later, we find the acronym "IBGYBG" in the Congressional testimony of Richard Michalek, former vice president of Moody's Investors Service, a credit rating agency that facilitated the 2008 subprime mortgage crisis and the global financial meltdown that followed (White 2010). In his statement to Congress, Michalek explains that the sources of the crisis included the lack of consequences or accountability for investment bankers who engaged in risky, poorly researched and poorly documented deals; no matter how bad the deal, the banker would always get paid. Michalek describes wrangling with one such banker over following correct procedure for assigning a Moody's rating: the banker told him that the priority should be "get the deal closed, and if there's a problem later on, it was just another case of 'IBGYBG'—'I'll be gone, you'll be gone"' (2010, 5).

The acronym seems to have been popular on Wall Street for some time, a snippet of "bankerspeak" (Dash 2009) familiar to many in the financial industry. Some have suggested that there was a generalized "IBGYBG ethos": a defining feature of 21st-century finance that supplanted any pretense to an ethical foundation the industry once had, developed as a "predictable outcome" of the opportunity structure presented to bankers (Knee 2007). This chapter builds on such observations to argue for a structural view of the sources of the 2008 crisis. This analysis shifts the focus from individual characteristics—such as greed, or lack of ethics—to the structures of incentives, opportunities, and networks underlying financialized capitalism.

To be sure, the historical record going back centuries shows that whenever opportunities for financial speculation have arisen, they have been accompanied by what Fernand Braudel called "a thick scum of fraud and intrigue" (1992, 309). But under financialized capitalism—in which the basis of the world's key political economies has shifted from industry to finance (Krippner 2011)—both the opportunities and rewards for fraud have increased. At the same time, the power of competing institutions, such as states, has decreased. The result is a "criminogenic" environment (Tillman and Indergaard 2007, 482), in which cheating and crises are virtually inevitable.

Moreover, one of the most significant manifestations of power under this economic regime is the ability to reap the benefits of financial speculation without being subject to the same degree of risk and responsibility as others (Sayer 2015). Contemporary financial actors grow in power to the extent that they can capture the advantages of participating in markets (particularly the profits) without subjecting themselves to the disadvantages. For example, knowing that "insurance" is available in the form of bailouts like the Troubled Asset Recovery Program of 2008 creates "moral hazard," undermining the motive to act prudently and avoid reckless risks (Hellman, Murdoch, and Stiglitz 2000). Such configurations of costs and benefits, distorted by the effects of power, create the kind of "not my problem" ethos that inspired Madame de Pompadour's remark about the prospects of financial ruin for France. In brief, IBGYBG is the 21st century's abbreviated, inelegant version of "après nous le déluge."

The remainder of this chapter will explore the social, economic, and political structures that underpinned the global financial crash of 2008. It will also assess the outlook for future crises. The perspective is distinctly sociological, in contrast to the individual-centered analyses of economics and psychology, but the compatibilities among the different levels of analysis will be—it is hoped—clear to the reader. The intended contribution is to shed light on dimensions of the crisis neglected by analyses centered on individual actors.

THE SOCIOLOGICAL PERSPECTIVE ON FRAUD AND FINANCIAL CRISES

A central insight of the sociological perspective is that financial crises keep happening for structural reasons, not moral ones. The crucial distinction is in the level of analysis: sociology puts more emphasis on context than character. This does not imply a view of individuals as helpless pawns with no agency. Rather, a sociological analysis asserts the power of structure—social, economic, and political—in shaping the lines of action that individuals develop (Goffman 1959). Another key sociological insight is that structures tend to reproduce themselves over time, which may partly account for the curious sense of déjà vu that befalls those who study financial history: as Reinhart and Rogoff (2009) have documented exhaustively, the same patterns have repeated themselves over centuries of financial bust and boom.

One reason that crises keep occurring is that their structural sources have remained unchanged in general terms. What John Kenneth Galbraith observed of financial history applies equally well to France in the time of Madame de Pompadour and the United States in the present day:

> The world of finance hails the invention of the wheel over and over again, often in a slightly more unstable version. All financial innovation involves, in one form or another, the creation of debt secured in greater or lesser adequacy by real assets. . . . All crises have involved debt that, in one fashion or another, has become dangerously out of scale in relation to the underlying means of payment. (1993, 19–20)

The debt risk in finance sets the stage for instability and crisis. At the same time, economists argue that eliminating this risk "would mean destroying the existing financial system" (Prates 2013, 7). This analysis explicitly claims that regulatory intervention to prevent excessive leveraging—the assumption of debt disproportionate to assets—is useless. It also rejects the promise of macro-prudential regulation, including the Dodd-Frank Act in the United States (formally titled the Wall Street Reform and Consumer Protection Act of 2010) and the recommendations of Europe's Basel Committee on Banking Supervision (known as Basel III). Both efforts, which were designed to avert breakdowns in the financial system before they occur, have come under fire from economists claiming that the regulations fail to deal with key sources of risk and in many cases create new problems (Greenspan 2011; Hanson, Kashyap, and Stein 2011). This is consistent with findings on the results of regulatory efforts in the wake of previous crises. For example, the Sarbanes-Oxley Act of 2002, created in response to the financial and accounting scandals of the early 20th century, was widely derided as failing to address key systemic problems (Soederberg 2008). The ineffectiveness of these measures in addressing the crisis of 2008 would seem to bear out such judgments. In view of this dismal track record, many see the present crisis-prone financial system as essentially unchanged, ready to implode anew.

Another implication of a structural perspective is that if individuals are behaving badly—for example, committing fraud or taking "selfishly heedless" risks (Sonnenscher 2007, 1)—we should look for the causes, and the possible remedies, in the matrix of opportunities, rewards, and sanctions they face. For example, numerous finance professionals and observers have noted that any account of the recent crisis must acknowledge that there were enormous incentives for exploitative and recklessly risky activity by financial firms and professionals leading up to the 2008 crash; at the same time, there were no meaningful sanctions when those actions led to disaster (Dash 2009; Smith 2012).

Subsequent analyses have confirmed that not only were the firms directly involved in creating the crisis bailed out at taxpayer expense, but executives implicated in the scandal were richly rewarded. For example, a trio of Goldman Sachs traders received huge bonuses for pushing the firm to bet against the mortgage-backed securities they were aggressively selling to clients; when the value of those securities crashed, the firm posted record profits at the clients' expense (Kelly 2007). Boston University economics professor Lawrence Kotlikoff later said of Goldman's failure to disclose this conflict of interest, "This is fraud and should be prosecuted" (Gordon 2009). As this book goes to press, Goldman Sachs has agreed to a $5 billion settlement with the federal government, without admitting guilt–a deal widely derided as a "sham" (Dayen 2016). Furthermore, no individual from Goldman has faced criminal or civil charges in connection with the subprime mortgage crisis. There has been a grand total of one such prosecution stemming from subprime mortgage fraud, and it pointedly avoided implicating any key actors: "The largest man-made economic catastrophe since the Depression resulted in the jailing of a single investment banker—one who . . . was neither a mortgage executive (who created toxic products) nor the C.E.O. of a bank (who peddled them)" (Eisinger 2014, 34).

Just these two structural conditions—the basis of financial innovation and the costs versus benefits of financial fraud—explain a lot about the emergence of crises like the subprime mortgage crash of 2008. Such conditions create a "criminogenic" (Vaughan 2007; Needleman and Needleman 1979) environment, which may explain why so many finance practitioners and scholars seem to view crises as inevitable (Minsky 1986; Knee 2007). What we have lacked so far is a solid theory to explain why this is so.

As Malliaris, Shaw, and Shefrin observe in the introductory chapter to this volume, "Minsky provided no clear model, either linear or nonlinear, to underlie his contention." While some mathematical modeling has attempted to address this issue (see Keen, this volume), the results often seem more descriptive than predictive and behavioral. A sociological analysis contributes to this gap in knowledge by providing an account of the structures that are likely to produce the forms of cheating and risk taking linked to financial crises. The waves of financial fraud that have hit the markets in the early years of the 21st century even gave rise to a new sociological theory: the "criminogenic markets approach" (Tillman and Indergaard 2007, 482), which examines the ways in which certain institutions, industries, and organizations structurally facilitate or even promote fraud. This involves the "normalization" of fraud as part of firms' standard operating procedures and everyday practices. This routinization and destigmatization became pervasive in accounting and banking during the late 20th century, resulting in the savings and loan crisis and later in the Enron and WorldCom scandals (Tillman and Pontell 1995; Tillman and Indergaard 2005).

STRUCTURE AND MORAL AGENCY

Faced with the prospect of big bonuses when risk taking and fraud turn a profit, and the extreme unlikelihood of facing any penalties if the efforts fail, why would anyone forgo the opportunity to cheat or take reckless risks? The moral arguments against such behavior become increasingly weak as a growing proportion of one's colleagues are seen to engage in it and reap rewards (Paternoster et al. 2013). There is even evidence supporting an imitative model of fraud within the financial industry, suggesting that when individuals or firms appear to prosper through fraudulent practices, competitors follow suit (Schiesel 2002).

Some actors express their agency by self-selecting out of the system. The most vivid recent example of this is the Goldman Sachs director who resigned via a *New York Times* op-ed piece declaring that the firm had become "toxic and destructive" because it was led by "morally bankrupt people" (Smith 2012). For those who remain, it must be with the understanding that ethical considerations are incompatible with personal advancement. This suggests that cheating and fraud are not, as some psychologists suggests, primarily a problem of "self-control" (Gino et al. 2011). Rather, we should be looking at the structure of opportunities, rewards, and sanctions that individuals face.

As the Norwegian social scientist Thorstein Veblen observed of finance over a century ago:

> Freedom from scruple, from sympathy, honesty and regard for life, may, within fairly wide limits, be said to further the success of the individual in the pecuniary culture ... It is only within narrow limits, and then only in a Pickwickian sense, that honesty is the best policy. (2009 [1899], 147)

Veblen alludes here to Charles Dickens's novel *The Pickwick Papers* (2000 [1832]), in which the title character (Mr. Pickwick) and his friend Mr. Bottom exchange insults without really meaning them. The phrase "in a Pickwickian sense" thus means "not to be taken literally." The implication is that ethics in finance are a joke, or—as one observer said in connection with the infamous Enron code of ethics—nothing more than "lip service to traditional pieties" (Arbogast 2008, 244).

Veblen's perspective is not necessarily in conflict with other scholars' claims about the ways that virtue and ethics have actually promoted the growth of capitalism (e.g., McCloskey 2006). But the capitalism to which those other scholars refer includes the historic whole, comprising crafts and industry—making things—as well as trading. The version of capitalism that Veblen had in mind was much closer to what we see now under regimes of financialization, which have come to dominate the global economy. As Krippner (2011) has documented, many leading economies that once were grounded in making and selling things have shifted from creating to distributing wealth. Rather than producing medicines, software, or cars, a financialized economy prioritizes the business of "mov[ing] wealth from one hand to another" (Mukunda 2014). With this structural shift in the basis of national wealth, we have seen a corresponding decline in the role of ethics and values among leading economic actors.

FRAUD AND POWER IN A FINANCIALIZED WORLD

Financialization has been defined as an economic system in which the underlying mechanism of growth is "making money out of money" (Denning 2014). Not only do financial markets come to dominate a nation's economy, but financial actors assume controlling influence over economic policy and outcomes (Palley 2007). Ironically, historical analyses of the phenomenon suggest that it was an adaptive response to mitigate the impact of the recurrent crises in capitalism (Krippner 2005; Arrighi 1994). It now seems, however, that financialization has come to produce new sources of instability.

This is because financialization relies on debt, which—in excessive amounts—is destabilizing (Prates 2013). To give a concrete sense of how "dangerously out of scale" (Galbraith 1993, 20) debt became prior to the crisis, consider that between 1981 and 2008 private sector debt more than doubled (from 123% of GDP to 290%) and leverage (borrowing against assets) more than quintupled, going from 22% of GDP to 117% (Crotty 2009). This was clearly a major threat to economic stability. Some traders and financial firms recognized the dangers years prior to the crash, but—perhaps motivated by the "IBGYBG ethos" (Knee 2007)—neither practitioners nor regulators stepped in to stop it (Morgenson and Story 2009).

Instead, industry insiders exploited this knowledge, cheating their clients out of billions and reaping record profits for themselves (Santoro 2013).

Critical political theorists have described fraud as a critical "form of domination" (Augelli and Murphy 1993, 128). In financialized systems, power manifests as the ability to cheat, flouting both law and moral norms, without negative consequences. This is not the result of aberrant "bad apple" behavior—an explanation which locates agency at the level of individual character. As one recent study of financialization and fraud put it, "it's not about corruption," in the sense of personal moral failure; rather, the problem is systemic distortion of beliefs, opportunities, rewards, and sanctions attached to cheating (Mukunda 2014).

Fraud is the preferred method of domination when the use of force is perceived by actors as too risky or too costly compared to the benefits. As Gramsci observed decades ago, "between consent and force stands corruption/fraud (which is characteristic of situations when it is hard to exercise the hegemonic function ...)" (1971, note on pg. 80). The use of fraud to assert power and domination without resort to physical violence (Arrighi 1993) has a long history in the financial realm (Chancellor 2000; Mihm 2007; Harrington 2012; Harrington 2013). Indeed, Veblen called special attention to this feature of financial work more than a century ago. In his analysis, the ability to cheat constitutes a type of core competency in financial practice: "The pecuniary employments give proficiency in the general line of practices comprised under fraud, rather than in those that belong under the more archaic method of forcible seizure" (Veblen 2009 [1899], 151).

Within such a system, individuals have few practical means to effect change, due to the punishments visited upon those who speak out against fraud. In a 2013 report titled *High Retaliation Rate: A Cause for Concern*, the National Business Ethics Survey (NBES) reported that 21% of American workers were punished for reporting fraud in their firms; another 34% of workers said that they witnessed fraud but declined to report it due to fear of reprisals (NBES 2013). Even highly placed finance industry insiders seem to lack the authority to make meaningful change within their organizations: instead, they resign (Smith 2012) or—like the women who blew the whistle on fraud at Enron and WorldCom—must accept being marginalized and ignored until they can get a government agency to take their claims seriously (Pulliam and Solomon 2002).

This suggests a limited role for leadership and governance by individual executives who wish to combat fraud in finance. Furthermore, in an environment in which even highly placed executives may lose their positions as a result of failing to post performance numbers on par with competitors who are cheating (Schiesel 2002), the price of bucking the system is often losing one's power within it. Thus, although there is a robust literature claiming that better leadership can reduce instances of fraud (e.g., Brown, Treviño, and Harrison 2005; Knights and O'Leary 2006; Bragues 2008), the empirical evidence suggests that this scenario is unlikely for structural reasons: namely, the systemic sanctioning of those who refuse to cheat or who act as whistleblowers.

STATE POWER AND FINANCIAL FRAUD

In this context, meaningful change is only possible through institutional support—usually provided by government regulators and prosecutors. In practice, however, this support has been lacking (Galbraith 2004). As one political economist put it shortly after the 2008 crisis occurred, the "deep cause" of the global crash lay in "the flawed institutions and practices of the current financial regime . . . [along] with the era's light government regulation" (Crotty 2009, 564).

This is borne out by the accounts of practitioners on the regulatory side. In a recent speech, a former trial attorney at the SEC used the occasion of his retirement party to lambast the agency for being "tentative and fearful" in the face of Wall Street's power, refusing to use government authority to prosecute the finance industry professionals who created the crisis, despite ample evidence being available to make a case (Kidney 2014). Similar observations have been made about other federal agencies. For example, the Federal Bureau of Investigation actually reduced its personnel assigned to mortgage fraud cases in 2008 (Swedberg 2010), while the Justice Department ignored calls by Congressional representatives to create a financial crimes task force (Lichtblau 2008). In other words, the only entity empowered to impose meaningful sanctions on wrongdoers largely eschewed that role, both in the lead-up to the crisis and in its aftermath (Morgenson and Story 2011).

This is more than passive complicity by the state; some argue that we should regard states as active collaborators in the destruction of their own financial systems (Lewis 2010). This seeming paradox stems from a structure of conflicted interests on the part of those in charge of the government's financial crisis-prevention and mitigation systems. As Useem (1986) showed almost 30 years ago, there are multiple, mutually reinforcing network ties among business and political elites: they often attend the same schools in their youth, see each other socially in adulthood, and recruit each other to join organizations.

The structure of interlocking social and professional networks is particularly powerful in the relationship between finance and government. The problem occurs globally—due in part to the ascendancy of finance as a profession (Fligstein 1990; Zorn 2004)—but was especially pronounced in the political economies most devastated by the 2008 financial crisis: the United Kingdom, Iceland and the United States (Gill 2008; Norman 2011). As one scholar recently described conditions in the United States, "representatives and lobbyists of the financial sector are so entwined with the agencies that are supposed to regulate it that Washingtonians collectively refer to them as 'The Blob"' (Mukunda 2014). These chummy relationships played a role in policymakers' willingness to dismantle the regulatory structure erected after the Great Depression of the 1930s, which "ring-fenced" the risks taken on by the financial services industry—protecting the public, but also limiting the industry's profits (Blundell-Wignall, Atkinson, and Lee 2008; Labaton 2008).

Labor market structures contribute significantly to this problem of conflicted interests. Many have observed what appears to be a "revolving door" between Wall Street and federal regulatory positions (Kidney 2014; Braithwaite 2013). The most famous examples of this are former Treasury secretaries Robert Rubin and Hank Paulson, both of whom held top positions at Goldman Sachs—Rubin as co-chairman of the board of directors, and Paulson as CEO—prior to assuming their roles as regulators (Braithwaite and Makan 2012). Goldman also provided Mark Patterson, a senior banker who became chief of staff to Tim Geithner, who served as Treasury secretary from 2009 to 2013. Geithner, who was known for having "unusually close relationships with executives of Wall Street's giant financial institutions" (Becker and Morgenson 2009, A1), later proposed that those institutions be bailed out at taxpayer expense. This ended up being a windfall for his business allies: "Much of the Troubled Asset Relief Program in effect used taxpayer money to finance bonuses for top bank employees and dividends for shareholders with no positive impact on financial market performance" (Crotty 2009, 578). One of the beneficiaries of the bailout was Robert Rubin, who had joined Citigroup after leaving the Treasury Department; as a major shareholder in the firm, he personally netted $126 million in profits from Geithner's bailout program (Cohan 2012). Following his predecessors through the revolving door, Geithner left Treasury to become president of a private equity firm (December 2013).

This structure of networks, and particularly labor market ties, between finance and government has a name: crony capitalism (Norman 2011, 30). And it is not unique to the crisis of 2008. Rather, it seems to be a red thread linking the entire history of financial disasters. From the 18th century to the present, such crises have seemed to *require* collusion between government agents and financiers to reach full destructive potential (Harrington 2013). In what is widely regarded as the world's first financial crisis—Britain's South Sea Bubble of 1720—the creation of a sham national investment scheme required the cooperation of members of Parliament, the nobility, and business leaders; the historical records indicate that all knowingly participated in defrauding the public to enrich themselves (Reed 1999, Carswell 2002). More recently, the same problems of network structure and conflict of interest observed in the run-up to the subprime mortgage crisis were also noted in Iceland's "incestuous economy" (*Financial Times* 2008); there, national bankruptcy was precipitated by political leaders facilitating—rather than regulating—dangerously risky activity by financiers who were also their friends and sometimes family members (Gill 2008). In view of this history, it would seem that crony capitalism is not an aberration but a recurrent manifestation of power within financial regimes—one unlikely to be addressed effectively by regulation.

INTERNATIONAL CAPITAL FLOWS AND AN INDUSTRY "TOO COMPLEX TO REGULATE"

Another structural condition favoring financial fraud is the increasingly global scope of finance itself. As more and more capital moves across national boundaries, it becomes more difficult for any one state to combat financial fraud. Like collusion among elites, this problem has a long history: it seems to have been born with the advent of international trade. As Braudel writes, "one of the customs agents under Louis XIV wrote to the controller-general of trade, 'Your worship could set an army along the entire coast of Brittany and Normandy but it would never stop fraud"' (1992, 49). The difference now is that the volume of capital is so much greater than ever before, as is the ease with which it can be moved across borders.

The international transmission of capital increased dramatically in the run-up to the financial crisis, peaking at an average of more than 20% of GDP for many countries (James, McLoughlin, and Rankin 2014). Cross-border financial flows increase instability and make crises difficult to contain (Nier, Sedik, and Mondino 2014). To mitigate the risks, what seems to be required is some sort of global coordination in terms of regulation and safety net provisions; suggestions have included the maintenance of fail-safe lending facilities, such as the IMF's 2009 Flexible Credit Line, which was designed to provide emergency liquidity for countries facing financial crises (Turner 2014). However, there appears to be very little public appetite or political will to create new institutions for preventing financial fraud or halting its spread (Rey 2013). And existing institutions have thus far lacked both the capital and political legitimacy to provide effective and enduring solutions (Fernández-Arias and Levy-Yeyati 2010; Moghadam 2011; Sharman 2006).

Even if the political will *were* present to support such institutions, it may be that the system has already become too complex to achieve those aims. Many observers of the 2008 financial crisis noted that Wall Street traders and firms often did not seem to understand the securities they were selling, much less the systemic implications of default (Lewis 2010). Some have branded this the problem of being "too complex to regulate"—a reference to the oft-heard phrase during the post-crisis bailout, "too big to fail" (Orr 2009). Others have gone farther, arguing that "financial institutions and markets are becoming 'too big to understand'—and thus need to be shrunk and simplified" (Tett 2012; Hu 2012). However, political efforts to break up and thus reduce the complexity of large financial institutions have met with ferocious and successful resistance by finance industry leaders and lobbyists (Gandel 2015).

There is a great deal of profit to be made by keeping things complex, both for individual finance professionals and for their firms (Winters 2011). It is even advantageous to some states—particularly tax havens, which sustain themselves economically by exploiting the complexities and gaps in international financial regulation. Tax havens (or "international financial centers," as many prefer to be called) are at the center of interstate competition to attract lucrative finance industry business. They do this by offering an environment of little to no regulation and taxation; in return, the states get jobs for local citizens and revenues in the form of incorporation and transaction fees.

Tax havens made possible both the hedge fund industry and the mortgage-backed securities market (Gordon 2009). While hedge funds can exist anywhere in theory, tax havens have created a particularly attractive business environment, permitting the funds much wider latitude to take financial risks (and therefore to earn higher profits) than do onshore jurisdictions. For example, the laws of tax havens are often written expressly to allow hedge funds to maximize profits by keeping capital requirements lower and permitting the funds to carry more leverage (debt) than would be allowed onshore. The confidentiality offered by tax havens is also appealing to funds, whose formulas for speculation are often closely guarded secrets; unfortunately, this secrecy, and the rarity with which tax havens cooperate in international legal inquiries, also makes it difficult to identify and punish criminal activity connected with financial crises (Harrington 2013).

The combination of high risk and low accountability offered by tax havens has been implicated in financial crises even prior to 2008. The best-known case is that of Long-Term Capital Management (LTCM), whose reckless risk taking was said to have "nearly blown up the world financial system" in 1998 (Jorion 2000, 277). The failure of LTCM, whose funds were maintained in the Cayman Islands, was so threatening to the integrity of the global economy that the US Federal Reserve Bank took the then-unprecedented step of bailing out a failed private enterprise, at a cost of $3.6 billion in public funds. Following the LTCM crisis, however, the hedge fund industry remained largely unregulated and continued to thrive offshore, where it later innovated a new, high-risk financial instrument—the mortgage-backed security—which helped bring down the world economy in 2008.

Cayman also played a key role in that debacle, since its minimalist regulatory framework made it the most attractive jurisdiction for Goldman Sachs and other firms to conduct "secret deals" bypassing US securities and disclosure laws (Gordon 2009). This allowed Goldman to bet against the very investments it was selling its customers, without notifying the customers of the conflict of interest. From Cayman, toxic securities were funneled to investors and institutions worldwide, creating the "channels of contagion" (Crotty 2009, 571) that crashed the financial system (Dodd and Mills 2008, 14).

As these examples suggest, states operating as tax havens provide several crucial components of the legal and political structure that enables financial fraud and financial crises to occur. For one thing, their provision of new legal regimes tailored to the interests of the finance industry multiplies systemic complexity and makes it increasingly difficult to discern legal from illegal activity across jurisdictions. Second, by creating low-to-no-regulation zones, tax havens provide opportunities for dangerous new risks to emerge. Third, tax havens make it easier to hide illegal activity: the conflict of laws among jurisdictions impedes international cooperation and dramatically raises the costs of investigating and prosecuting financial crime (de Willebois et al. 2011). This was crucial to Enron's strategy of fraudulent transactions and tax evasion schemes; the firm used a network of 692 subsidiaries in Cayman, plus another 200 offshore structures, all designed to generate huge paper profits and conceal violations of accounting rules (Batson 2003, Edwards 2005). Finally, by luring so much financial activity away from onshore states, tax havens create a "race to the bottom," undermining efforts to regulate finance in the public interest, to punish fraud, or to prevent future crises from occurring.

CONCLUSION

One indication of the power that has accrued to finance in the social, economic, and political structures is that most of the fundamental instabilities that caused the 2008 crash have never really been addressed (Dayen 2013). As a former investment banker and derivatives trader put it,

> The structures which enabled financial market actors to take excessive risks and the incentives that made it immensely profitable for them to do so are still very much in place. (Kapoor 2010, 6)

In fact, Wall Street has actively and successfully resisted most proposed legal changes that might restrict their ability to take on debt and risk (Mukunda 2014). Far from deterring future frauds, the only impression the crisis seems to have left on the financial industry is the lesson that the cheaters *do* prosper.

As an indication of how little has changed since 2008, eight major investment banks are currently under investigation for defrauding clients between 2009 and 2011—that is, *after* the financial crisis occurred. Not only that, but the fraud consisted of substantially the same activity that created the crisis in the first place: selling junk mortgage bonds while misrepresenting their value and risks (Eaglesham 2014). Even under threat of a collapsing world economic system, these and other financial actors continued to reap significant profits from illegal and unethical activities. And their power continued to grow—enough that they were able not only to secure a massive taxpayer-funded bailout but to resist any meaningful attempts to change their way of doing business. This is a vivid empirical illustration of Arrighi's observation that "corruption and fraud are thus tactical weapons in a rearguard struggle to preserve power" (1993, 149).

This article has offered a sociological analysis to identify some of the key structures that contributed to the 2008 financial crisis and remained in place in its aftermath. Three are particularly significant:

1. *Opportunities and sanctions*
   It continues to be profitable for financial industry insiders to exploit information asymmetries vis-à-vis investors. At the same time, there is a notable lack of punishment for those who are caught (Eisinger 2014, Santoro 2013). But punishment is routinely doled out to whistleblowers who report fraud and ethical violations (NBES 2013).
2. *Conflicts of interest*
   These conflicts are structured by the interlocking social and professional networks underlying the "revolving door" between positions in finance and government (Mukunda 2014). This "crony capitalism" undermines the will and ability of regulators to set limits on the financial industry (Crotty 2009, Harrington 2013).
3. *Legal and financial complexity*
   This includes the creation of financial instruments and institutions that are "too complex to regulate," as well as the emergence of state actors who exploit and increase that complexity for their own economic benefit (Hu 2012, Tett 2012, Winters 2011).

With these structures still in place, the prospect of future financial crises seems immediate and inevitable.

Some see a new subprime meltdown taking shape in the market for securitized student loans, described as bearing an "uncanny resemblance" to the pre-2007 mortgage market (Carrns 2012). Others see a threat from high-speed trading (Baumann 2013). Despite disagreements about its form, there is convergence on the notion that another disaster is on the way. Even the vice chairman of the Federal Reserve Board alluded to this in a recent speech, saying that "the next crisis—and there will be one" will take a new form based on shared underlying causes with past disasters (Fischer 2014). The fatalism of the regulatory authority in the face of recurring fraud-based crises is reminiscent of the observations of one scholar, who concluded of the past 300 years of financial history that "at its core, capitalism was little more than a confidence game" (Mihm 2007, 11).

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