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Review of *Normalized Financial Wrongdoing: How Re-regulating Markets Created Risks and Fostered Inequality*

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The Great Recession of 2008 is perhaps the most important global event of the twenty-first century. Not only did it wreak havoc on lives far removed from Wall Street, but it also revealed deep forms of risk that have since been allowed by governments to persist, creating nagging financial instabilities. Harland Prechel's book *Normalized Financial Wrongdoing: How Re-regulating Markets Created Risks and Fostered Inequality* takes up the difficult task of explaining the conditions under which financial risk was able to run wild, what its broad effects were, and how finance might be reined in. The book's argument is largely a structural one concerning two main areas: the organization of the firm and of the laws governing it. Through a process that Prechel terms "political capitalism," he argues that political and corporate elites radically reconfigured both corporate organizational and political-legal arrangements in ways that incentivized high-risk forms of value extraction on the part of finance.

The object of the analysis, financialization, is treated as a mode of capital accumulation that puts greater emphasis on financial transactions and activities, something that is now conventional within the sociological literature. And its key instrument is the derivative—a contract between two parties making a bet on the value of an underlying security in the future. Derivatives, fictitious commodities, create new profits (or losses) from the price performance of very real ones. And for Prechel, their ascendence marks a decisive shift in the accumulation model away from value creation (i.e., the making of real, needed things) to value extraction. The rise of this model has led to profound forms of risk and widespread financial fraud.

Normalized Financial Wrongdoing adopts a social structures of accumulation (SSA) perspective, which argues that capitalism goes through repeated cycles that upset and rearrange prevailing institutions. In brief, SSA argues that accumulation models go through three stages: exploration, where institutions are experimented with and restructured to promote capitalist growth; consolidation, where an institutional arrangement is settled upon and a dominant power bloc of capital emerges; and decay, when the prevailing institutions no longer provide the means for sufficient levels of capital accumulation. The book, principally about the decay-exploration transition to financialization, shows that the finance sector was able to unify business around a political agenda that led to profound institutional reassembly, leaving behind large "structural holes" that corporate managers exploited with different forms of financial malfeasance.

Let's turn to the argument. In what is perhaps the book's most fascinating empirical contribution, Prechel shows that the normalization of financial risk and fraud was deeply tied to changes in both the banking and the energy sector. The first area of structural change that allowed both to flourish concerns the formal organization of the firm. In wonderful detail, the book shows how the holding company form of the firm was transformed into a multidivisional form, where internal capital transfers could occur, in the post-New Deal period. Justified by a neoliberal ideology and a drive to gain greater access to the public's money, the firm was then transformed into the multilayer-subsidiary form. The multilayer-subsidiary form in particular opened the possibility for off-balance-sheet financing with securitized assets.

The way this organizational form of the firm enabled Enron in the energy sector to engage in profound malfeasance in the natural gas derivatives market that it created is a fascinating part of Prechel's study. Enron had convinced the SEC to allow the company to use market-to-market accounting, in which the accountant enters revenues when deals are made rather than when the revenues are received. They justified this, as the first non-bank allowed to use this accounting technique, because they had effectively become a "gas bank" through their derivatives market. Enron had moved away from selling actual pipelines to transport gas to, much like a bank, brokering derivatives contracts between buyers and sellers of gas. They could then report all their revenue on the basis of futures derivatives. Other energy companies soon mad similar accounting changes.

This created motives, incentives, and opportunities at Enron to engage in profound forms of financial malfeasance. The multilayer-subsidiary form of the firm gave the managers the capacity to increase organizational flexibility, including the creation of off-balance-sheet special-purpose entities. This allowed Enron to make deals deep within the structure of the firm, in ways that the public had no access to. The combination of market-to-market financing with securitized debt (what is sometimes referred to as shadow banking) meant that Enron was able to generate huge amounts of revenue, which gave the public the impression that it was a great success, while hiding its debt and incredible risk in special-purpose entities it created using off-balance-sheet financing. Enron exploited the structural holes available and, by colluding with financial firms, was able to fraud its employees and shareholders until the 2001 energy crisis destroyed the company.

Political-legal changes also helped to spread high-risk forms of asset securitization. Public policy changes in the New Deal period helped established the home mortgage market, where banks acted as market enablers through their issuing of mortgages. Yet legal changes that began with the Emergency Home Finance Act of 1970 allowed the Federal Home Loan Mortgage Company (the government-sponsored enterprise that became Freddie Mac) to pool mortgages into bonds and sell securities in them—that is, mortgage-backed securities.

In the context of a shortage of capital to meet consumer demand, state banks, S&Ls, insurance, and financial services firms all engaged in lobbying efforts to change their property rights; and the political upshot was a gain in access to mortgage markets. By dismantling rules such as Regulation Q, the Glass-Steagall and Bank Holding Company Act, banks were able to greatly expand the market for mortgage-backed securities and consolidate a political fraction of capital in the finance, insurance, and real estate (FIRE) sector, which later merged with energy to become a forceful power bloc. The forms of financial malfeasance this promoted led to 2008's profound FIRE-sector-driven crisis. The book shows that this malfeasance was widespread.

Prechel ends with a very wide-ranging reflection on the conditions under which emancipatory social change might happen, given the financial sector's strength as a power bloc. Decades of conflict between capitalist class fractions were effectively settled in the 1990s, when FIRE became dominant. The flip side, however, of the political rise of finance was the fracturing of the working and middle classes. For Prechel, populist unity across working and populist classes is necessary to build countervailing force against FIRE. *Normalized Financial Wrongdoing* will be of interest to scholars of contemporary capitalism, finance, and economic sociology. It is broad and wide-ranging in its scope and offers much insight into the dilemmas of contemporary life.

Prechel, Harland. Normalized Financial Wrongdoing: How Reregulating Markets Created Risks and Fostered Inequality. Stanford, CA: Stanford University Press. 2020. pp. 384. ISBN 9781503614451.