necessary consideration of interconnections between the taxation system, social policy and economic development was not adequately discussed. However, this volume is an essential read for anyone interested in social policy and it makes an important contribution to re-evaluating the role, goals and policies of a social policy system that is progressively being shrunk into a limited social safety net – with holes in it, rather than being built as an active, integrated and balanced social policy programme that would make an active and important contribution to Australia's economic development.

Anat Admati and Martin Hellwig *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It*. Princeton, NJ: Princeton University Press, 2013; 424 pp.: 9780691162386, RRP USD29.95 (hbk), USD18.95 (pbk); 9781400851195 (eBook)

John Coates *The Hour between the Dog and the Wolf: Risk-taking, Gut Feelings and the Biology of Booms and Bust*. London: Fourth Estate, 2012; 304 pp.: 0007413521; 978000741352, RRP AUD29.99 (pbk)

Reviewed by: Jocelyn Pixley, *The University of New South Wales, Australia*

There are a lot of things to like about *The Bankers' New Clothes* and, given the authors have fairly conservative views on money, a lot of people like it.[1] Admati and Hellwig are experts on bank regulation, the former at Stanford's Graduate School of Business and the latter at the Max Planck Institute for Research on Collective Goods. Although there is no shortage of 'continuing crisis' books, this is a clever and remarkably (for the dry side of economics) witty, thoroughgoing attack on the political manoeuvres of the banking sector since the crisis (hence their title). The book compares very well with run-of-the-mill methodologically individualist accounts such as that by John Coates (briefly mentioned below), an investment banker doing neuroscience and finance research at Cambridge University.

It is now 7 years since world economic activity nearly ceased, care of the global banks. I think Admati and Hellwig are right to be completely fed up with the sector's lobbying and scare tactics designed to prevent any possible reform to banks. The sector is creating more dangers for everyone, and its resistance – coupled with a staggering amount of political pressure and 'donations' – is also an international phenomenon.

This spirited critique of the 'emperors of banking' is welcome for exposing bankers' excuses in general, and for confronting the main problem the book identifies, which is the emperors' refusal to improve bank debt-to-equity ratios. Admati and Hellwig list shameless claims to competence, bullying and intimidation of politicians and regulators and a loathing of the public. The most prominent bank CEOs are named for their false claims: the authors devote pages to Jamie Dimon (head of JP Morgan) and Josef Ackermann (former head of Deutsche Bank) for specious arguments and – although they are not the only CEOs discussed – I think it is a good choice. In this way, it is a global critique, showing that personal petulance, spite and lack of decency are also collectively shared phenomena of little Napoleons.

Although the book does make fun of these figures, it is mostly a debate with the lay reader because, Admati and Hellwig claim, 'only pressure from the public can bring forth the necessary political will' to reduce the enormous social dangers of 'unsafe

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banking' (p. 8). Perhaps this is so, but the authors could have addressed their public more inclusively by offering it as an elementary primer for bankers. After all, banks are the key global problem. But it is a limited primer on technical details and, as discussed below, the authors do not extend their criticisms to the mendacity about money itself. More promisingly, however, they do not waste too much space on academic defenders of banks. These cheerleaders have, since the crisis, insisted on the 'inevitability' of crises; that risk-taking 'necessarily' entails fragility and vulnerability. Their chorus that the 'unintended consequences' of any reform will prevent banks from supporting the economy (e.g. Gary Gorton, cited in Admati & Hellwig, pp. 3, 231–233) is ridiculed. Banks do not support 'the economy', but rather its destruction through wilful resistance.

Instead of hand wringing, though, Admati and Hellwig's charges are quite funny. One of the 'bankers' new clothes' is 'The Principle of the Unripe Time', in the sense that bankers' wheedling for delay is setting in train further bank collapses. They cite Francis Cornford, who complained about this excuse long ago: 'Time … has a trick of getting rotten before it is ripe' (cited p. 169).

The basic vulnerability of bank balance sheets dominates the majority of Part II, let alone Part I. Admati and Hellwig charge that the 'emperors of the banks' deliberately confuse the question of 'capital' with 'equity', with 'nonsensical and false' opposition to greater 'capital' requirements (pp. 5–7). Greenspan is quoted agreeing with bank CEOs that strict capital regulations will imply a 'buffer of idle resources': this is 'misleading' (p. 234) and 'biases' the debate. The book correctly insists that 'capital' can be built up by retaining profits, or from owners or shareholders, such as when banks call for a recapitalisation. Their crucial point is that this 'capital' is not borrowed: it is 'equity'. Such restrictions on banks' *own* borrowing has a precautionary aim: to require them to hold greater equity, namely, non-borrowed money to fund banks' investments. The authors liken it to a down payment, or a safe amount of equity of a house buyer, 'which enhances the bank's ability to absorb losses on its assets' (p. 6).

So why do 'banks hate equity' and say it is 'expensive'? Admati and Hellwig rightly show that for banks, reserve requirements at the central bank (such as they may be) are different from capital (equity) requirements, and the latter do not prevent banks from lending at all. As well, ordinary firms do not 'borrow anywhere near as much as banks do' (at most 50% of assets), whereas banks (notably in Europe/UK) have 90% or more of borrowed assets. They argue that borrowing is only cheap to banks because they 'can count on being bailed out by governments' and this is factored into the interest rates creditors charge and the credit ratings of banks. The dangers of a bank default are 'partly borne by taxpayers' (p. 7); however, much bank lobbying denies this public subsidy (p. 8). *This line cannot be repeated too often*. Moody's factored in a bailout in early 2007, for example, to resulting panicky bank outrage at the very suggestion (Pixley, 2012: 218–219).

The Bankers' New Clothes is very strong on empirical detail and calculations of the upsides and far fewer downsides for banks if they hold a safe proportion of equity (such as Basel III rules). The authors compare bank balance sheets under US accounting rules with the International ones that have stricter reporting requirements (chapter 6), and also compare these with household balances whose liabilities are the debts that are *banks' assets* (this fact is widely unknown). They cite the contrition in CEO speeches when the world's economy nearly stopped in 2008, only in order to contrast

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these 'confessions' with the CEOs' switch, almost overnight, to arrogance and special pleading from 2009 onwards. The authors attack alleged free market 'virtues', arguing that the incentives of banks and other financial firms are 'perversely conflicted with those of society' (p. 81). Amen to that.

The book amply demonstrates that the entire sector is fighting viciously to protect its privileges. Despite CEO Jamie Dimon's claim that JP Morgan has a 'fortress balance sheet', the authors tear this sheet to shreds – it is 'dangerous'; the commitments and 'potential liabilities of the bank are left off the bank's balance sheet'; in 2011, it had merely 4.5% total equity under European (International) accounting rules (pp. 83–84); the bank also trades in financial claims (with risks it hides). As well, many banks delay reporting 'impaired' loans, to avoid assessments that they are insolvent (pp. 86–87). In fact, banks' complexities make them 'too big to depict' (p. 89). Admati and Hellwig attack Dimon's claim that a 'dumb bank', even JP Morgan, would deserve bankruptcy with the sector taking the resolution costs, as shameless 'bravado'. Dimon ignores the immense 'harm to society' (p. 78). They emphasise how the global banks are new in size and in global interconnections, and an enormous threat to the world.

Bankers' whining has grown since, but the book downplays the role of governments and political parties: Some urge recoveries led by further mortgage, consumer and student debt. And, for example, a new right-wing Australian government even aims to *abolish* legislation that banks should *serve the interests of their clients*. As well, the Australian Prudential Regulation Authority (APRA) is insisting on an early introduction of the Basel III capital rules. But ministers and the finance lobby use exactly the same 'bankers' new clothes' excuses: higher equity will be 'chilling for high growth lending'; it was 'thwarting' the ANZ Bank's lending; Trade Minister Robb says 'we have robust regulation' proven during the 2008 crisis; Basel III will 'add costs' and 'red tape'. The counter argument of APRA that Australia's banking system 'borrows extensively overseas' is ignored. In fact, APRA was a 'key target' in a recent inquiry into financial services, headed by a former CEO of a large bank with a number of charges about its alleged dubious conduct to clients (Potter, 2014: 18). APRA is not imposing anything that is shocking to anyone but banks: 'Common Equity Tier 1 Capital for capital adequacy purposes is to be 4.5 per cent and a Total Capital ratio of 8.0 per cent … must be maintained at all times'.[2]

Elaborating on their cautionary theme, Admati and Hellwig also give a useful and detailed correction of the elite view in Europe and Australia that only US and UK banks 'created' the 2007 crisis. The German story, notably about Deutsche Bank, is better told than many other accounts (Chancellor Merkel's narrative springs to mind; and that of Australia's current government). In fact, when not thoroughly shredding JP Morgan's bank balance sheet and its CEO's pitifully weak but intemperate attacks, the authors similarly criticise Deutsche Bank. For example, it had 2.5% of equity relative to its total assets at the end of 2011 (p. 234). They cite 2008 World Bank data on total bank liabilities to gross domestic product (GDP) and the ratios set out in Table 1 obtain.

Admati and Hellwig stress these liabilities are growing and, because the US economy is so much larger than others, the fact that the EU/UK banks are also larger than those in the USA may make the British and continental banks 'too big to save' (pp. 12–13). The problem that many deposits are loans is not mentioned, however.

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Table 1. Total bank liabilities as % of GDP, 2008, selected countries.

Country	Liabilities to GDP
Switzerland	629%
United Kingdom	550%
France	273%
Germany	135%
United States	93%

Source: World Bank, cited in Admati and Hellwig (2013: 238).
GDP: gross domestic product.

Basically, the book urges caution against over-borrowing. I particularly like the authors' line against Robert Merton Senior (Admati and Hellwig, pp. 51–53): It was never convincing to argue that a bank run in the middle of the Great Depression was only a 'self-fulfilling prophecy' (see Pixley, 2011). Banks were likely to be insolvent with clients either unemployed or despairing for their businesses, given that the value of debt was growing. And, although mere rumours can start a run, this concept has influenced the Federal Reserve, for example, far too much. For example, in their late 2007 debates shown in Federal Open Market Committee (FOMC) transcripts,[3] members are frightened for, or of, banks and the 'stigma' they might face in asking for lender of last resort, hence the Fed's 'hidden' loans at that time to prevent a 'self-fulfilling' collapse. The Fed's timidity is another story.

But I want to part company with the ultimate assumptions of Admati and Hellwig, which denies the nature of money in the deposit-creating loan. In Merton's (1957: 421–423) description of a bank run as a self-fulfilling prophecy, he neglects to show that the definition of the situation, whatever it may be, is *the only situation*. The same line occurs in *The Bankers' New Clothes*. Money is an institution, and all the consequences of money's fraught social relations are real. One might say Admati and Hellwig are naive about money.

With the book designed to appeal to lay readers, their most irritating example is to invent a homebuyer called 'Kate'. After they have given us the 20th example of Kate putting AUD60,000 of equity for a house worth AUD350,000 as opposed to AUD30,000 equity or other combinations, these boring details of equity show the gap in their argument. What they cannot, and refuse to, say is that banks are radically unlike 'Kate' because she cannot create 'money'. There is nothing on Minsky's ([1986]2008) position (p. 255) that anyone can create money; the problem is getting it accepted. In one of Admati and Hellwig's (too many) examples (pp. 17–26, 32–45), Kate can borrow from her well-off 'auntie' but they ignore that *unlike banks holding IOUs*, the aunt cannot use Kate's IOU to her as *money* to pay taxes or go to the supermarket. Historically, this is what gradually changed in the treatment of debts as a kind of promise that could be detached from the personal IOU, depersonalised, and made alienable. It could then be used and 'accepted' as 'money' and, finally, as legal tender developed by banks – not with depositors' 'money', but with central bank reserves.

The Bankers' New Clothes is reminiscent of the many others, such as Ben Bernanke (2013), who commit the 'error' that Schumpeter (1954) criticised in the 'professional

https://doi.org/10.1177/1035304614556229 Published online by Cambridge University Press

ideology' (p. 730) of 1830s bankers. Then as now, bankers claim to derive funds from savers (depositors) and say they have no influence on the amount of credit. This view may lead to the idea that a 100% bank reserve requirement is 'equal' to deposits, and thus 'safer'. But as Schumpeter (1954) remarks, 1830s schemes (100% reserves) for 'preventing banks from creating near-money … will not prevent the trade from doing so' (p. 723). The same schemes have been proposed since 2008, and they are just as futile. Banks deposit loans and look for 'enough' funds later, from central banks, Libor and money markets. Not once is the 'deposited loan' mentioned in this book.

Admati and Hellwig's *quantity* view of money (including demand deposits but ignoring deposited loans) is compared to the chartalist money approach of Charles Goodhart, which they flatly reject (cited and discussed p. 294). They accept that 'banknotes can be seen as claims on the government' (to pay taxes) but their argument against Goodhart is 'the issue of banknotes does not commit the government to anything'. They merely state that 'banks hold less than 100 per cent reserves *against* their deposits' (my emphasis). They ignore that the central bank routinely monetises bank 'near money' by buying bank debt. Their case against 'dangerous' banks would be much stronger if they admitted that deposits largely consist in deposited loans, and that this is the bulk of money. Central bank or state money is a tiny fraction. It would make more sense, also, when they discuss 'dangerous' non-deposit taking finance firms, if they admitted the typical practice of creating 'near money' at a pen or keyboard stroke in both types of finance firms.

Chains of interdependencies are involved in money: it is a three-way social relation between creditors, debtors and the community (Ingham, 2004). The quantity view leads to the threadbare argument that 'too much' money is the danger; and *only* the state is to blame (a footnote in Admati and Hellwig, p. 294). Since their book was published, the Bank of England has remarkably conceded that banks create money; but it still insists monetary policy can 'control' bank money (McLeay et al., 2014). Yet, monetary policy has just failed spectacularly. Still, it is one the most honest statements to be made for years.

Schumpeter (1954) remarked that many economists (e.g. Walras) knew of the deposit-creating loan, but thought the practice was 'tinged with immorality' and omitted it from their models (pp. 1115–1116). This gap undermines *The Bankers' New Clothes*.

The problem is not just safer equity levels, but the basic purposes of banks' newly created money. If banks are not lending for future new wealth creation and new jobs, belief in money's possibilities falters. Income streams of interest cannot be maintained with unsound lending, say for sub-prime mortgages, without employment opportunities. When the creation of new money is nearly all devoted to funding Ponzi schemes in existing assets (e.g. property), to private equity (leveraged buy-outs) and to throwing trillions of near money at High Frequency Trading, banks destroy economic activity. Bank money creation for infrastructure and employment is different from loans requested for arbitrage.

Also ignored in *The Bankers' New Clothes* are these cumulative effects of the damage to public trust in banks, regulators and legislators. Barely mentioned is the bank rigging of Libor and foreign exchange markets and serious abuse of clients that, when uncovered, met with fines and not with loss of bank licences to create (state guaranteed) money. Although bank activities are self-destructive, and their propaganda against equity mendacious, how is this distinguishable from corruption? The ludicrous claims that Admati and Hellwig destroy very well are nearly beside the point. Banks' *apparent* aim is to

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retain *dominance at all costs*, and this political battle is why banks will resist taking a 'sensible view'. State re-regulation has played a large part in 'freeing' the market (aka bank tactics) to govern by panic, and market rigging is not a new practice. Currency manipulation, to take just one example, undermines central bank pretensions to control of money.

The worry is that the really scary aspects of the 'bankers' new clothes' are the destructive role of banks and, leading on from this now totalising selling machine, the globalisation of indifference. Widespread indifference is a feature of the world's elites, and it spreads to the public sphere, to governments and civil society. The reviewer's own early research was on 'whom can we trust?' When it comes to investigating this question, money is the great omission when it should have the largest question marks.

Yet, in contrast to these disappointments, no debate on any alternative is fostered in 'finance' books that discuss *man*'s primal urges. In this respect, *The Bankers' New Clothes* is to be congratulated since it looks at the institutional practices of banking and preventable dangers. If biology rules, however, the financial sector is incapable of change. For example, *The Hour between the Dog and the Wolf: Risk-taking, Gut Feelings and the Biology of Booms and Bust* (2012) by John Coates is one of a host of breathless novels (in effect) that attribute all the activities of this socially arranged (or deranged), conflict-ridden financial field to 'human nature'. Plenty of sociologists have tried their best against biological reductionism. The point, frequently made, is that one does not look, in the first instance, to neurons in the category 'soldier' to explain what he or she is doing in war or peace. One looks at 'army', its historical structure and its political leaders who either give directions to the army (in the case of a constitutional separation) or take orders from it (in the case of a coup).[4] (Admati and Hellwig correctly imply that banks 'give orders' to the state.) In contrast, although well read on philosophers like William James, Coates talks of 'the thrill of the moment', 'gut feelings' and 'exuberance'. The traders who *fear* that they cannot 'plan their ski trip' are this book's subjects. Their financial risk-taking, he says, 'is as much a biological activity [as what *else*?] with as many medical consequences, as facing down a grizzly bear' (p. 4). Sometimes 'chemical surges overwhelm us' (p. 5) or, more specifically, they overwhelm a trader called 'Martin'. His 'early-warning system has sprayed noradrenalin throughout his brain' (p. 125: ad nauseam). Will 'Martin' engage in 'flight or fight'? Turn the page.

Coates disregards the fallacy of composition or the idea that executive orders vary in contexts of booms and busts. So alleged cures are individualistic or stereotypical (for other 'cures' in behaviourism, see Pixley, 2010, 2012): 'training to help calm the unstable physiology of risk-takers' (p. 12) or, since apparently 'women excel' in the 'long-term strategic thinking' so 'desperately' needed in the financial sector, banks will hire more women because they want 'stability'. But men are not exactly *useless* 'because bubbles, while troublesome, are a small price to pay for channeling men's testosterone into non-violent activities' (Coates, 2012: 255).

The recipes in such books beg the question of bank executives' imposition of specific cognitive and emotional rules under ruthless competition, recklessness in booms, profits at any cost, in assuming that humans are 'molecules' (Coates' term). Specific fears or euphoria are generated by money and its uncertainties; banks profit from volatility, ruthless deals and systemic corruption, and collectively bring themselves down through

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these tactics; historically, states have primarily turned to bank money for *war* finance. None of this is explained from molecules (etc.) in the first instance; fear or violence is socially conditioned; huge impersonal trust institutions govern our lives, impose emotion rules, which elicit unavoidable but unpredictable reactions ranging from anxiety, through anger to mendacity. No manner of insidious nudging and manipulation of individuals can 'manage' event-driven, reactive competition driven by emperors with no clothes.

There are chains of social interdependencies that are never fully understood even by the elite actors at the top of any hierarchy at any one point in time. Civilising and de-civilising tendencies are always present in history. Any plea for greater civility or even better, decency, will compare the prominent habits and values fostered in any site of power to the specific historical conditions and balance of power. The sociological question is whether decent (and *yes*, cautious) institutions foster decent individuals or vice versa. Whatever the answer, at present, the finance sector is indecent and its officials are unable to exhibit even the civility of tolerance, or any convincing or democratically legitimate justification for its existence. *The Bankers' New Clothes* at least asks banks to take decent care of their responsibilities to 'society' and to the social conditions that change in history. I believe little is gained by carping at those who, for example, omit the most crucial points, such as money creation, when one can add this to their sharp criticisms. Heterodox economic sociology welcomes those who castigate some of the most petulant if destructive emperors (bankers) we have borne for a while.

Notes

1. Endorsements are diverse. One reviewer compares the book to Keynes' *General Theory*. It is remarkable how few of the real orthodox lot have read Minsky or Keynes, although they now praise them. See Freedman (2006) on M. Friedman's tactic, which was to dismiss by saying that Keynes said 'nothing new'.
2. See Australian Prudential Regulation Authority (APRA) (2013, 2014).
3. See Board of Governors of the Federal Reserve System (2014).
4. Max Weber ([1909]2012) in frustration at a similar reduction said economic theory is not reliant on 'whether astronomy accepts the Copernican or the Ptolemaic system' (p. 260). And it is of little consequence (unless banks administer hormones or lobotomies as work conditions: Pixley, 2010, 2012) to the social sciences that Paul Damasio's fine neurological work (cited in Coates) stresses human imagination from his work on brain injuries (accidental lobotomies). If the natural sciences want to cooperate, well and good, but not if they 'ignore' – Weber ([1909]2012) explains – the 'certain historically given and historically changeable social conditions' (p. 268, his emphasis) in which we live. See also Steven Lukes (1973).

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David Walters, Richard Johnstone, Kaj Frick, Michael Quinlan, Geneviève Baril-Gingras, Annie Thébaud-Mony, *Regulating Workplace Risks: A Comparative Study of Inspection Regimes in Times of Change*. Cheltenham: Edward Elgar, 2011; 400 pp.: 0857931644; 9780857931641 (pbk), RRP USD 142.00.

Reviewed by: Felicity Lamm, *Centre for Occupational Health and Safety Research, Auckland University of Technology, New Zealand*

There is an expectation shared by trade unions, employers and the general community that state intervention in Occupational Health and Safety (OHS) is essential in order to protect individuals from harm, set minimum standards and provide a robust inspectorate to ensure compliance. The justification for such legislation can be seen in three ways. First, management may consider OHS to be unimportant and/or, in the face of competitive pressures, fail to provide sufficient protection for the workers. Second, workers in such circumstances are relatively powerless to protect themselves. Third, the efficacy of a country's OHS legislation and regulatory enforcement agency are seen as a barometer of labour rights, and only after disasters (such as those that occurred on the North Sea Piper Alpha oil rig in 1988 or at the New Zealand Pike River Coal Mine in 2010) are deficient, actions of the regulators and the ineffectiveness of regulations often exposed.

Given that it is generally accepted that there should be effective OHS legislation and an equally effective regulatory enforcement agency, it is surprising that there is a dearth of contemporary, comparative research on the topic. During the 1980s and 1990s, there

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