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Blackstone vs BlackRock

A book review of Brett Christophers, *Our Lives in Their Portfolios. Why Asset Managers Own the World*, Verso, London and New York, 2023.

Heavy rains in the first half of 2024 fueled not only Britain's rivers, but also public outrage over the poor quality of England's sewage system. Charming little streams in the English countryside overflowing with untreated human feces made headlines across the Channel. Critics argued that Thames Water's ownership was to blame for the poor quality of this public service, its chronic under-capacity and decades of under-investment. Indeed, after its privatization during the Thatcher era, the company changed hands several times and was often owned by large investment funds run by firms such as Macquarie, one of the largest infrastructure funds. Brett Christophers' book, *Our Lives in Their Portfolios*, is timely in exposing the capitalist mechanisms behind the British sewage scandal.

This book focuses on infrastructure and real estate funds. Behind a sophisticated and sometimes esoteric vocabulary, these funds are simple capitalist devices through which asset managers invest their clients' wealth in various types of assets. As explained in detail in chapter one, this type of contract differs from traditional investment schemes such as stocks or bonds. The investment fund managed by an asset manager is a secretive and opaque vehicle, open only to a very select group of institutional players, such as pension funds, insurance companies and banks, foundations, who accept, in return for the promise of a regular cash flow, to lock up their money for a certain period of time and leave it to the asset manager to decide its fate.

Asset management is not a new phenomenon and has been studied by various social scientists who have focused, for example, through rich ethnography on everyday investment practices or on workplace discrimination that maintains an upper-class white male hegemony (Ortiz 2021; Neely 2022). Chrisophers' book remains discreet about its methodology, probably because it is aimed at a broader audience than the social science academic public. Nevertheless, the academic reader will quickly notice that, unlike most social studies of finance research, *Our Lives* does not rely on first-hand observations and interviews or on statistical analysis, but rather on a vast amount of secondary material, including an impressive collection of excerpts from the financial press and financial reports. Nevertheless, this extensive material allows him to paint a comprehensive picture of asset management over the last few decades and to highlight the worrying evolution of some of its sectors.

Asset management has evolved rapidly since the 1970s, directing investments toward a variety of targets, such as listed companies (mutual funds and hedge funds), unlisted companies (private equity), or emerging companies (capital risk). In the last decade, a new type of fund has boomed: infrastructure and real estate funds. Water, energy, communications, transportation (parking lots, highways), social services (especially day care and retirement facilities), farmland, housing – all of these assets of our daily lives are the new fields in which these asset funds are flourishing. While these funds sometimes buy listed or unlisted operators in these sectors, they generally prefer to acquire infrastructure assets such as wind farms, water pipes, parking lots, housing, on which various actors (operators, states, households) depend and for which they have to pay regular fees.

This emergence, described in Chapter 2, stands in contrast to other financial innovations. Indeed, the United States has been more of a follower than a leader in developing this niche. In fact, infrastructure emerged on the other side of the world in Australia in the 1990s, bolstered by the privatization of energy assets by the state of Victoria. In the 2000s, this business developed further in Europe (and especially in the United Kingdom) and the United States: low interest rates, the lack of profit prospects in traditional financial markets due to the global financial crisis, and the fall in real estate prices made this asset class particularly attractive: cheap infrastructure and real estate assets that generate regular income. By 2020, this niche activity, once small and barely visible, had gained some importance in the world's wealth, with key players such as Blackstone, Brookfield or Macquarie, described in detail in the last part of Chapter 3. Compiling various financial reports, Christophers estimates their importance at $4 trillion in 2020, including $1 trillion in housing and $3 trillion in infrastructure (p. 8). Moreover, its growth is impressive when compared to the $1 trillion in assets under management in 2009 (p. 94). Thus, real estate and infrastructure assets now account for 4% of the $100 trillion in assets under management and almost 1% of global net worth — $535 trillion (Chancel et al. 2022).

Still, one might wonder why we should care about this class of assets, since its importance in asset management is still limited. Moreover, it is not new that important assets of everyday life, such as one's house, farm, or field, are owned by someone else, whether present or "absentee landlord". Chapters 4 ("The costs") and 5 ("Who gains") detail the pernicious aspects of this assetization of real estate and infrastructure. In fact, infrastructure and real estate funds, more than individual owners, pursue a systematic strategy of maximizing returns.

Far from their image of long-term investors, they prioritize assets that generate short-term, predictable, regular income, such as regular monthly fees and rents for occupying an apartment, farming land, or using water pipes. Thus, those funds systematically underinvest. They do not hold on to their assets for long. After a few years, they transfer them to a new owner before the costs of chronic underinvestment become visible. When contracting with the state to take over some assets, the inclusion of "revenue guarantees" to protect against insufficient fees is also a common "de-risking" strategy (p. 171). In short, the key to these funds' success lies in the intelligent use of "natural monopolies" (p. 206). By controlling assets on which many parties (users, cities, states) depend, they gain power over them and intensively exploit contractual incompleteness: raise fees, underinvest, or reduce quality. These pernicious effects are probably at their greatest when asset managers invest in public-private partnerships (PPPs). They take advantage of the willingness of state entities to limit their current debt by offering a "market" solution that ultimately farms out these entities' future revenues.

While these asset funds are costly for asset users, especially for state actors and ultimately for citizens, one might wonder who benefits from their development. Could it be the "teachers, nurses and firefighters" who benefit through their pension funds investing in this new asset class to fund their future pensions (p. 233)? The book quickly debunks this heroic hypothesis. First, these investment funds are mostly open only to a very select elite. Second, even if pension funds could invest in these vehicles, they are not as profitable as one might think. While they reward asset managers with hefty profits and bonuses, the picture for investors is not so rosy. In fact, like hedge funds, these opaque vehicles opt for a 2/20 fee structure. Asset managers earn both 20% of the fund's profits and a 2% annual fee on the amounts invested. While the 20% serves as an incentive and ideological justification, asset managers often make huge profits solely on the 2% fee, without adding any significant value to their clients. Finally, investment funds are companies that are particularly involved in "fiscal extractivism". Not only do they register their funds in tax havens to take advantage of the opacity and lack of taxes on corporate income, but they also pay profits as "carried interest," which is undertaxed in many countries, such as the United States.

Overall, then, the book paints a broad, insightful, and disturbing picture of the development of infrastructure and real estate funds. It does an excellent job of warning a wide public audience about the social costs and risks of this new activity. At times, academic readers may wish the book was more specific about the precise mechanisms that underlie the power of this industry. While the examples are generally striking, even outrageous, one wishes for better explanations to completely exclude the alternative neoliberal/market efficiency narrative. A link to neoinstitutional economics (à la Williamson) and economic sociology would have been helpful to characterize market power and asymmetry. Moreover, one might wonder whether the mechanisms identified by the author are entirely specific to this activity. In fact, short-termism, de-risking, monopoly power, contractual incompleteness, fiscal extractivism, etc. are mechanisms that are widely found in capitalist (and even pre-capitalist) economies. What may be specific to asset management, however, is that this activity not only bundles assets but also these extractive mechanisms to an unprecedented degree.

Christophers also introduces a new concept that deserves some discussion. The growing influence of asset managers over the key assets of everyday life should lead us to consider the emergence of a pernicious "asset-manager society" which differs from the "asset-manager capitalism" described by Braun (Braun 2022). Indeed, the latter refers to the fact that large asset management firms such as BlackRock, Vanguard or State Street have paradoxically become key players in contemporary capitalism. Specializing in low-cost passive index management that replicates major stock indexes, they now own a significant share of the economy (up to 20% of the S&P 500 for the big three) and, if they were a little less "passive," could play the role of "universal owners" interested in maximizing the returns of the economy as a whole, rather than acting as individual shareholders maximizing the profits of the companies they control one by one. In contrast, infrastructure and real estate asset managers such as Blackstone actively manage the assets they control and do not hesitate, for example, to evict tenants in order to maximize profit on each specific asset.

How can we reconcile this polarization between "asset-manager capitalism" and "asset-manager society," between Blackstone and its offspring BlackRock, and even between different divisions of BlackRock itself (since it also has a secondary involvement in infrastructure funds)? One way is to think of finance as a field (à la Bourdieu), with conventional, listed, passive finance facing alternative, unlisted, active finance. Thinking of it as a field helps to better understand how asset management works and its recent polarizing political impact (Benquet and Bourgeron 2022)

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