Preface and acknowledgments

The capacity and the gift of forgetting have perhaps never been more beautifully and charmingly portrayed than in Kenneth Grahame's *The Wind of the Willows*. After encountering the piper at the gates of dawn, The Friend and Helper, and finding the lost baby otter, Mole and Water Rat are struck by a melancholy that fortunately vanishes into the gentle breeze that suddenly surrounds them:

As they stared blankly, in dumb misery as they slowly realized all they had seen and all they had lost, a capricious little breeze, dancing up from the surface of the water, tossed the aspens, shook the dewy roses, and blew lightly and caressingly in their faces, and with its soft touch came instant oblivion, for this is the last best gift that the kindly demigod is careful to bestow on those to whom he has revealed himself in their helping: the gift of forgetfulness. Lest the awful remembrance should remain and grow, and overshadow mirth and pleasure, and the great haunting memory should spoil all the after-lives of little animals helped out of difficulties, in order that they should be happy and light-hearted as before. (Grahame, [1908] 1993: 104–105)

To forget and to move on, these principal human capacities are in many ways helpful as they save us from standing in “dumb misery.” Remembrance and recollection are nevertheless useful too, at least on the institutional and collective level. In its own curious and highly personal way, this volume is an attempt to counteract our joint, all-too-human forgetfulness, the “instant oblivion” that at times is necessary to be able continue to live a full life, but that in other cases may prevent us from learning from individual or collective mistakes.

The financialization of the economy and of the firm has been a quite salient mark of the times since at least from the late 1990s and what now is widely described as the Internet bubble. Money-making has always been part of for example, the Wall Street culture and the popular account of the work conducted in such money-dense environments (think of Tom Wolfe's (1987) *Bonfires of the Vanities*), rarely fails to underline this credo. In the late 1990s, the Internet craze included, among many fascinating traits, the conspicuous ambition to make money quickly and seemingly with limited effort; and the finance industry ideology of amassing large stocks of finance capital on the basis of esoteric know-how were no longer

a marginal phenomenon. In August 1999, after I graduated from Lund University, I was hired by Chalmers University of Technology in my hometown of Gothenburg. In the period around the turn of the millennium, my department (for reasons not to this day very clear to me), shared some office space with a small but quickly growing Internet-based trading company developed to serve as a market place in the textile industry. The times were great for young, ambitious entrepreneurs in Sweden, a small, export-oriented economy that just a few years earlier had outlived one of its worst finance market crises ever, and were now being fueled by the promise of the relatively novel technological wonder of the Internet and an emerging, buoyant venture capital market. In a very short period, the small company grew from the original four Chalmers graduates in their mid-twenties to something like 40 co-workers including a newly recruited CEO in his forties (I guess), and soon enough the company was rumored to be planning an office in Hong Kong. The attitude and confidence of the four initially quite mellow young entrepreneurs started to change, and the stream of newly hired co-workers showing up in the facilities developed in tandem with the increasing arrogance and self-confidence of the news reporting about the “New Economy” – the new economic regime based on digital media with endless growth potentials and with no more cumbersome ups and downs in the economic cycle (see for example, Neff, 2013). Indeed, as Thomas Frank (2000: 356) remarks, the new economy was “the long summer of corporate love.”

While there were many that were willing to believe in the narrative of the promise of the economic possibilities in the Internet age, it was also very difficult to believe that the frantic growth that I and my colleagues witnessed *in situ* would be sustainable. It was, as is often said in hindsight, “crazy times.” Among the most spectacular events widely covered in Swedish media in this period was the grandiose failure of Boo.com, a London-based trading site for fashion clothes started by two Swedish entrepreneurs with limited business experience besides running a small publishing house and a successful book-trading site a few years earlier (still in business under the name Bokus). When Boo.com was declared bankrupt in May 2000, it had accumulated an astonishing £178 million in debt, by any standard a remarkable squandering of capital in such a short period of time. In the new millennium, such sums of money (in terms of profits, losses, and economic compensation and bonuses), being cognitively hard for most people to grasp, would be more frequently discussed. After the Internet bubble burst in March 2000, the whole idea of the “New Economy” seemed defunct. The new economy in the case of Sweden brought a new form of entrepreneurship and made it hip, and digital media and Internet were soon institutionalized in the economy and society

at large. But the very idea of hyper-accumulation of economic value, the perhaps most radical proposition of the new economy framework, seemed to migrate from the field of digital technologies and media and into the domain of finance.

The new combination of conspicuous greed (or to put it less harshly, the ambition to make money on the basis of entrepreneurial skills and technological know-how) and what Thomas Frank (2000) calls “the conquest of cool,” the ability of the field of business to appropriate the coolness otherwise associated with the arts and counterculture (portraying for example, popular culture figures such as Jean-Michel Basquiat, Patty Smith, or Chuck D as “cool,” while bankers and business people not so much), represented an entirely new model or even worldview; capitalists now being “cool?” I am glad I was old enough (by the year 2000, I turned 29) not to believe in all this talk about “making the first million before 30,” as I could see how some of the best minds of a generation were destroyed by such ambitions. Still, I am happy to have been able to have served as a first-hand witness of the sheer force of the dynamics of capitalism once the hype had taken off. Beliefs do matter, in particular in economic systems based on expectations.

Having said that, while the financialization in the 1990s was spelled “venture capital,” the financialization of the first decade of the new millennium until its halt in 2007–2008 occurred in the finance industry. All things being equal, the financialization of small Internet-based firms is relatively limited and confined to the problems of overrating the market possibilities of a smaller group of start-up firms (the venture capital invested in early-stage financing by the mid-1990s represented less than 0.01 percent of the GDP of the EU-15 economies; Deeg, 2009: 566); while the large-scale financialization of the economy orchestrated by the global finance industry tended to penetrate every single economic relation and to migrate globally (see for example Blyth, 2013). Then came 2008, and all of a sudden, everything that had seemed so solid virtually melted into thin air. The free-market solution to everything was not only based on a theoretical framework that seemed porous at best, it did not function practically. Strangely enough, as has been remarked by a series of qualified commentators (for example, Pontusson and Raess, 2012), only a few years after 2008, it seemed as if these events did not happen at all; everything went back to the situation before 2007. But for me, the 2008 financial collapse was a historical event of the same magnitude as the Berlin Wall coming down in November 1989 or the terrorist attacks of September 11, 2001: it was simply an event not so easily forgotten, regardless of all the finance industry actors having much to win in leaving history all behind as soon as possible. Alan Blinder (2013: xvi, original emphasis omitted)

observes in his book about the 2008 event and its causes and consequences that “the American people still don’t quite know what hit them, and why it happened, or what the authorities did about it.” At the same time, there are studies that suggest a change in attitude following the 2008 events. One study showed that while in 2002, 80 percent of Americans agreed in a poll that they “[s]trongly supported capitalism and the free-enterprise system,” by 2010 that number had fallen to only 59 percent (Stout, 2012: 10). While I am not in such an authoritative position to claim educational roles on this scale, I still suspect that Blinder is right that many people, myself included, had a hard time understanding what really happened here, amidst the fog of war and afterwards. In many ways, this text is an attempt to clarify for myself how comprehensive and influential the finance industry has become over the last three decades, and particularly since the turn of the millennium.

As the careful reader notices quite early on, this volume relies heavily on literature addressing American (or at least Anglo-American) conditions, and the reason for this is primarily that there are simply more research works on the topic being published in the US than in for example, Sweden. Still, what is true for the US, *mutatis mutandis*, is also true for a small economy like Sweden’s (see for example, Deeg, 2009; Djelic, 2001).¹ However, there are important institutional differences between the US and Sweden including differences in the political, legal, and regulatory framework, and in addition, there are important cultural and social traits of the two countries that matter inasmuch as there is strong political support across the political spectrum for what neoliberal intellectuals are fond of referring to as “collectivist solutions” in Sweden. Politically, Sweden has been dominated by the Social Democratic Party and center-right governments have traditionally avoided departing too much from this predominant tradition to recognize the legitimacy of the welfare

¹ Macéus’ (2014) account of the Swedish government taking over the Carnegie Investment Bank on November 10, 2008, at the height of the financial industry collapse, contains the all-too-familiar elements of a freefalling finance institution: autocratic industry leaders ignoring risks and all warning signals from regulatory authorities; a complex and “feudal” company structure with many divisions and subsidiaries; lavish bonus programs and a widespread preference for extravagant consumerism; an unprecedented risk-taking culture grounded in a milieu increasingly distanced from other industries and the everyday lives of most people; accounting and auditing firms praising the activities that in hindsight were conspicuously poorly functioning and in many ways culpable and morally questionable if not criminal; and the inability to adapt to new information and external demands. It is as if Carnegie had gained a momentum that was impossible to stop, leading to the loss of six billion kronor in stock value for the shareholders when the Swedish government terminated Carnegie’s license to operate in the finance market. The case of Carnegie was therefore more or less a blueprint of what was observed in for example the US.

state. In other words, some of the attitudes of American neoliberals, libertarians, and neoconservatives towards the role of the government and its “East-coast intellectuals” are for the most part irrelevant, at times even regarded as evidence of the quirkiness of the American political system from a Swedish perspective. Still, the US has been the politically, economically, and culturally dominant nation throughout the entire period of financialization (while this position is today questioned, primarily by American commentators themselves), and therefore American ideas and policies have in many cases been responded to across the Atlantic and elsewhere. In this view, financialization is of wide interest for a series of societies, economies, industries, and firms.

The term *financialization* being explored in detail in this volume is therefore not only enacted as a technical term, but is also a more general concept aimed at capturing broader socioeconomic and cultural changes since the early 1980s. It is a term that attempts to capture some of what Fernand Braudel (1980) speaks of as *la longue durée*, the more deep-seated cultural and institutional changes in history. I am fully aware I may fail to live up to Braudel’s rigorous standards, but I still want the term financialization to mean more than some technical shift in policy. In other words, while this is written as a monograph in the management literature genre, it is also trying to capture some of the more long-term changes whose first implications were witnessed by me and my colleagues in the late 1990s, the emergence of what was once – not very much held back by the failure of previous attempts to “breed the new” – declared to be the *new economy*.

ACKNOWLEDGMENTS

There are a few people I would like to thank who have helped me to bring this project to its conclusion. First of all I would like to thank Francine O’Sullivan, commissioning editor at Edward Elgar Publishing for offering me the opportunity to publish this volume. Second, I would like to thank all my colleagues at the School of Business, Economics, and Law, University of Gothenburg for the inspiring conversations over the years. In particular, my colleagues in the Management and Organization Section who have been good research collaborators and speaking partners over the years. Finally, I would like to thank my family for helping me understand that economic theory and economic research is not a matter of reflecting on esoteric matters but ultimately a quite straightforward analysis of how economic value is generated, allocated, and distributed in this late modern period of time, for many Westerners not so much characterized by a lack

of material resources as it is shaped by a complete understanding of the complexity of everyday economy.

Alexander Styhre

Sävedalen

9 March, 2015