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LECTURE ARTICLE

Predatory Formations Dressed in Wall Street Suits and Algorithm Math — Professor Sassen's 2019 Montesquieu Lecture Summary

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Professor Sassen opens the lecture[1] with the discussion of the rise of extractive logics. According to Sassen, once something—like value—has been extracted, it no longer matters what happens in the site where the extraction has taken place, even if the site is left void or deprived of something. Extractive logics have an absolute effect and are the opposite of creating something to grow, especially in terms of long-term effects on a place. Extraction logics have a negative nature, and Prof. Sassen provocatively asks: 'How do we make it into a positive?'.

Professor Sassen continues the lecture by discussing extractive logics in economies. According to Sassen, they are a radical and extreme component of our reality and they are spreading. One visible manifestation of such extraction logics in economics is the buying up of major complex buildings by corporations in the Western world. Here Prof. Sassen introduces the main actors associated with extraction logics, by asking: 'What is the steam engine of our epoch?'. She argues that the answer is high finance, which is often thought as part of economics, but in actuality has little to do with it. One notable characteristic of high finance is, according to Sassen, that it has an extreme capacity of expansion.

We tend to think of the term capability as something positive, it seems to have a positive notion. However, there can be some very powerful, negative capabilities as well which can go unnoticed. Dark pools, for instance, are a growing phenomenon in high finance, that started during the 1980s. For Sassen there are three things to point out with regard to dark pools: firstly, they are private networks owned by private firms that present today the main instrumentalities in the world of high finance. They are not owned by well-known, recognized public finance institutions, such as the central bank, but are rather private networks owned by private actors operating in anonymity. Secondly, there are many companies that are waiting to be accepted in one of these private pools. Lastly, we do not know what happens within the dark pools. What is known is that currently the U.S. market is number one in terms of the presence of dark pools, followed by Europe. At first glance, little else is known. What the citizens namely see, is not the dark pool's opacity, but the place in which they operate, the stock market, a public entity to which, in theory, everyone has access to. This is an instance of an extraordinary (negative) capability that few know something about. As an example of the concrete consequences of extraction logics perpetrated by dark pools in high finance, Prof. Sassen discusses the crisis of 2008 in the U.S. The crisis was considered to be generated by fairly low-income people who *thought* they could afford a house but lost everything after a few years as it turned out they could not. Prof. Sassen implies, however, that high finance dark pools are behind the crisis, due to the massive transactions involving pools of assets (the loans taken by low-income individuals) occurring on the stock market in complete opacity, as a result of dark pools. The concrete consequences of the actions of dark pools during the crisis are more visible, but also hard to exactly quantify. In fact, it is estimated that 14.5 million

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1 For the full lecture, please see: https://www.youtube.com/watch?v=W5gdRTU3HAE.

households went bankrupt during the crisis. What does it mean to expel 14.5 million families from their homes? How can that be quantified, considering also that that number is only an estimate, as it was hard to see, and still is, the real amount of people actually affected by the crisis. Many people in the U.S., never even found out about the real consequences of the crisis. Europe also went through something similar, albeit on a smaller scale. According to Prof. Sassen it is even hard to obtain data on the number of foreclosures occurring after 2009, perhaps in part due to the reason that some countries have stopped counting, but it is overall unclear why this data is unavailable or is missing.

Another element through which predatory logics can manifest is the ratio of household credit to personal disposable income, and the consequent foreign ownership of the debit relating to a household. The 2000s are when Eastern Europe enters the "Western style" economic system, and according to Prof. Sassen it can be seen that, while more mature markets had a certain stability during that time, the real estate market and the relating financial market did not present stability. This circumstance, according to Sassen, raises the question of who owns the debt that the growing number of households had in the emerging markets of Eastern Europe. Figures provided by Prof. Sassen indicate foreign ownership of the household debt. For instance, German, Austrian, and Swiss financial groups and national banks own a significant portion of the debt of the Eastern Europe households. This is particularly interesting, according to Prof. Sassen. If the debt was held by the neighborhood banks, the conversation would be completely different. A cyclical community model of homeowners and banks creating a negative feedback loop encouraged local growth and portrayed a healthy community. However, since foreign banks and financial institutions own the debt, this extractive mode inhibited the modest locals from creating a pure system of grassroots support. These small, modest households thus became part of the extractive mode of large international banks, companies and financial institutions.

An important leitmotif of Prof. Sassen lecture is that the housing market is especially affected by the extractive logics on a global scale. Similar trends of extraction to the U.S. and Europe are visible in a number of Asian markets as well, with the exception of China, thus on a larger scale forming a vast international extractive sector. Big business acquiring houses or apartment complexes built for individuals with modest incomes is a new phenomenon. With this—big business owning modest household debt—many new questions arise. One question Prof. Sassen's lecture subsequently addressed is: 'Who owns my property?'

In many cases, middle and lower-class families who rent their homes are unintentionally subject to a vast network of materialities generated by the financial system. A single-family home is now likely to be one of millions in a field of material assets. This is the goal of big business and the high-finance investment sector: to maximize profits. As derivatives are now no longer as profitable as they used to be, asset-backed securities are in. Asset-backed securities are generated through acquiring material assets, that is, real estate. In the shadows, millions of modest houses are being used to fuel a much larger enterprise to a disastrous end. What once was a mortgage secured through a local bank is now a material asset used as security for future high-finance acquisition.

Other kinds of property are likewise being acquired by the high-finance sector. Prof. Sassen provides in her lecture a series of figures supporting her hypotheses. In New York City for example, over 55 billion U.S. dollars were spent in one year on property acquisition. In London, 47 billion U.S. dollars: a figure up 40 percent from the previous year. London, however, is a bit of an outlier according to Sassen. More buildings in central London are owned by the Qatari Royal Family than by the Queen of England. These facts go unnoticed in our daily lives. The skyline remains unchanged as high-rise ownership is acquired by foreign investors. In one year, between mid-2014 and mid-2015 in the top 100 cities with foreign investment acquisitions of existing buildings, 600 billion U.S. dollars were spent on property acquisition; the following year, over one trillion. To put the numbers in a different light, Prof. Sassen adds that in 2016, in the same list of cities, foreign acquisition accounted for 10 percent of the world's population, 30 percent of the world's GDP and 76 percent of property investment.

At this point, Prof. Sassen explains what these figures imply and the change of paradigm they bring. Investments are normally associated with certain types of productive modes and logics of growth. What is happening, however, is different. In Manhattan, London, and across the globe, buildings are left empty. Gradually, more and more people leave the fancy high-rises owned by foreign investors in the world's metropolises. Rent significantly increased or congenial environment compromised, newly acquired buildings see tenants ebb. For investors, Sassen affirms, having tenants is an unwanted burden. This, according to Prof. Sassen, is an alarming tendency. As highlighted in the result of Sassen's latest research illustrated in Fredrik Gertten's documentary "PUSH", the buildings are more profitable empty, to the point where individuals are actively pushed out of them. An empty building can function as a physical element to feed a different type of instrument—one for use as an asset-backed security without any more money spent on regular upkeep or maintenance. Leaving the building empty, says Sassen, is the best business deal.

High finance has, in Sassen's view, moved away from finance and is not focusing on asset-backed securities. In this system, buildings become repositories of assets. The result is an image of the future that, in vast parts of the world, will potentially look like a juxtaposition between cities in which unregulated slums surround high towers.

The reason behind Prof. Sassen's alarming depiction of the future and of the role of high finance in the urban development and real estate market is that, according to Sassen, the city matters as a space for those without power, and in particular as a space 'where those without power can make history'. Big cities, that cannot be fully managed, can be seen romantically as an actor hacking both the rich and the poor. However, the rush to buy by foreign investors is leaving no free land anymore, in a system that risks making individuals, defined by Sassen as "urban subjects" beyond their census, powerless against corporations that own all the available, scarce, space in a city.

As a closing remark, Prof. Sassen explains how extractive logics have always been present. It is, however, with the 1980s, when many countries started to globalize, deregulate, and privatize, that a different scale to the extractive logics of value appeared. As a consequence, in the cities there currently are two worlds: the corporate world, for which the crisis and its effect were but a blip, a temporary interruption that did not last long as shown by the fact that corporate profits are now gaining profits higher than ever, and individuals, for which the crisis and its effects were much vaster and long(er)-lasting, and often still last, as shown by a graph of corporate profit in the past 50 years, compared with the income growth and distribution in the past century. Prof. Sassen introduces the term "unstable meanings": many of the phenomena described in her lecture are marked by meanings that are unstable. As an example of this, Sassen asks one final question: 'Who are we, the citizens?'.

Prof. Sassen closes the lecture with one additional remark, concerning another change occurring in the city. Extractive logics are enhanced, automated, and scaled up in high finance by the use of algorithms, and algorithms depend on data. Other actors, however, also operate in the city environment based on data. Showing a map (taken from the Washington Post) of all the cities in the United States in which offices of secret governmental agencies collecting data about citizens are located, Sassen closes the lecture highlighting how the amount of these offices and, consequently, the amount of data collected by them are staggering, and they show us a preposterous level of interference in the daily lives of individuals moving inside the urban environment.

Competing Interests

The authors have no competing interests to declare.

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