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Analysis of Power Relations of Banks in Contemporary Society

By Aleksander Miłosz Zieliński and Dietmar J. Wetzel

Please note the change of authorship from the original publication on November 1!

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The outbreak of the global financial crisis in Autumn 2008 drew the attention of the general public to the financial markets. Over the last two years we have seen a number of popular as well as academic attempts to explain the reasons for the crisis, most of them focusing on the American subprime mortgages on the one hand and the growing market for derivatives on the other. Even before the current financial crisis we could observe a growing interest of social scientists in the financial markets. There has been a number of very detailed analysis concerning the work of financial investors (Knorr Cetina/ Preda2004, Langenohl/ Schmidt-Beck 2007), social sciences of finance (Kalthoff 2009) or ethnographical analyses (MacKenzie 2006) to name just a few. However, so far not many sociological analyses of power relations with a specific focus on financial markets have seen the light of the day.1 One of the main interests in developing this power-matrix (as well as a series of related analyses, cf. Wetzel/ Zieliński [forthcoming]) was to identify a gap in current research and to provide a first attempt at analysing the power relations between banks and other social fields and institutions.2 The starting point was the assumption that it must be possible to leave the level of purely functional analysis and to look at causal relations between various institutional actors with a focus on major banks. When looking at the current financial crisis it seems plausible to assume that the concentration of power in the hands of a few actors, among them some of the biggest banks in the world, is one of the main consequences of the ongoing financial crisis. Of course not all major banks can be considered as „winners“ of the crisis, but surprisingly many.3

In our forthcoming publication we have proceeded in two steps: First we drew a complex picture of the financial market apparatus showing the central position of large transnational private banks in it but also a number of important relations between the important institutional protagonists (eg. rating agencies or the IMF). In a second step we undertook an in-depth analysis of three areas of interest concerning the power of banks: a power-matrix identifying the most important forms of power in the relations between major banks and other institutions, the question of regulative practices as well as an analysis of the ongoing process of concentration in the field of banks. For the purpose of this article we have decided to narrow down the scope and focus on the power-matrix. It is the result of an attempt at identifying different forms of power relations between banks and other areas of societal life. At the base we have the work of Heinrich Popitz who distinguished – from an anthropological perspective – four forms of power. We provided them with a social constructionist twist and analyse various forms of power relations in a highly differentiated society.

While the main focus of our work does not lie on central banks, it is still necessary to include them in an analysis of the power of banks. Through interest rates they have a big influence on the economic cycle and on the realm of possibilities of the major banks. From a critical sociological perspective it seems important to highlight mainly two moments: the dogma of political independence of central banks as well as the possibilities of profit that low interest rates offer to banks. Since the establishment of the Federal Reserve in 1913, the independence of central banks from political institutions has been a central dogma in financial policy. Nowadays practically every country in the world has a more or less independent central bank. Since being independent from the political system is not a given fact, it must be fought for politically. Traditionally, the big private banks have been the major supporter of the independence of central banks (Epstein 2009). From this perspective it is not surprising that the commission which was established in the United States to formulate the bailout in October 2008, had as its members mainly representatives of the major banks (as well as the treasure secretary, Henry Paulson, a former CEO of Goldman Sachs).4 Concerning the policy of interest rates it is now common – other than e.g. a hundred years ago – that the prime interest rate is not
the same as the lowest rates for private and business loans. Instead an interest rate exists for inter-banking loans (in the European Union the Euribor), which is the average of the actual interest rates and forms the base for all other credits which are usually 2% higher than the Euribor.

Obviously big banks are the primary institutions that are interested in low prime interest rates: They are able to access large sums of money more or less for free and assume that the interest rates they have to pay on these loans will be paid for by the loan takers. Over the last decades it has become less and less appealing to invest this money into so-called „real economy”, instead the banks use the money for investments into financial markets.

Our working hypothesis is that major banks have managed to profit from the momentum and to use the financial crisis to strengthen their position and to expand their power, also through the use of state aid. Of course we must not forget that the patterns that we will present here are merely a heuristic snap-shot – in reality the power relations are much more dynamic and overlapping. The reasoning behind the analyses of power relations is that for a long time (that is Max Weber’s perspective for example) it was rather difficult to study relations of power in society which led social scientists to focus on the analysis of rule. Nowadays, however, especially if we take Giorgio Agamben’s thesis of the permanence of the state of emergency (Agamben 2005) seriously, it is rather difficult to identify stable structures of rule in contemporary society (especially in the supranational context). This is why it makes sense to analyse power relations between major players and assume that there might be a connection between these relations and emerging structures of rule. Of course – as the name “relations” implies – it is important to remember that power relations are always two-fold and reciprocal.

Matrix of power relations

The basis for the following matrix is Heinrich Popitz’ power typology (Popitz 1992). Popitz defines power (following Weber) as the ability to prevail against external forces (Popitz 1992: 22). His phenomenological approach identifies power as anthropological constants. We would like to follow Michel Foucault and speak of power relations instead (Wetzel 2004). However, Popitz’ typology is a good way to label diverse power relations in different fields of society.

For Popitz the power of action is based on the vulnerability of living beings. He adds: „the vulnerability as creature is complemented by economic vulnerability.” (Popitz 1992: 24). The power of mobilisation is an instrumental form of power. It relies on the possibility to give or take, i.e. on a disposition about penalties and rewards that is based on alternatives and credible for the concerned persons or institutions. The power of data setting is founded on the fact that by producing artefacts one is able to exercise power over persons who use these artefacts. It is inherent to these artefacts and often latent over a long period of time, but can become manifest at any time. The power of position draws the attention to the fact that actors in certain positions possess a special kind of power over other actors which are subordinated to them hierarchically. We add to Popitz’ typology another common type of power, the power of definition. It stands for the ability to exercise power through the definition of a situation. In this process the complexity of a situation is reduced in a manner which makes certain interpretations plausible while excluding others.

In a second step we add a horizontal axis to our power-matrix. On this axis we locate the social fields. We focus on those areas of social reality which we consider most relevant from the perspective of power sociology, namely: economy, politics and mass media. The result is the following 5 x 3 matrix describing the various forms of power relations between big banks and other institutions.

See appendix, table 1

On the following pages we will describe those forms of power relations that we consider the most important ones. Of course more details could be added to the description of every field. The examples are meant more as an illustration than as a proof for the correctness of the diagnosis.

We begin with the power of definition where the creation of highly complex derivatives (SIVs) can be interpreted as an important form of power of the banks. A number of banks, above all Citigroup, had created a number of structured products that were then sold to private and institutional investors from all over the world. The CMDs which played an important role in the subprime crisis are a good example of such SIVs. CMDs are securitisations of American subprime mortgages, i.e. mortgages that have been loaned although it was highly unlikely that the loan takers would be able to pay them back. This power of definition is linked to what we have identified as power of data setting:
The Revised Framework on International Convergence of Capital Measurement and Capital Standards, better known as Basel II, which was implemented for all European banks on 1 January 2007. This document set new rules for the assessment of investment risk and the according equity ratio while at the same time raising the minimum equity ratio.

Due to the prominent role of banks for loan-giving not only to companies but through mortgage or consumption loans also to private persons this power of data setting can – in a relatively short time span – have big implications for the whole economy. It is easier to assess the range of this power of the Banking Supervision if one remembers that the rules which had been implemented before, the Basel I accord, led to the development of a second accounting (so called ‘shadow banking’) where banks covered a part of their investments in order to circumvent the regulations of Basel I concerning the equity ratio. It seems likely that for at least some of these institutions these measures were necessary to prevent bankruptcy.

One of the consequences of Basel II was that these investments had to be properly accounted for. Since they were linked to the American immobility market through the above mentioned securitizations, they lost a big part of their value when prices for houses started falling which had the consequence that many banks „became heavily undercapitalized“ (Fratianni und Marchionne 2009: 3).

It is necessary to link this process to the power of action of banks in the field of economy which we have identified as the possibility to enforce a credit crunch. Above all it is the procyclical effect of the Basel II rules that shows its effects: In times of crisis many companies face a decline in orders which makes it harder for them to pay back their loans. Banks are then forced to consider these loans as more risky, which needs more equity and can lead to an additional decline in loans.

After this short overview of some of the most important forms of power of banks in the field of economy, we would like to turn our attention to the field of politics. The first thing we notice concerns the power of definition (“who is able to define that we face a crisis?”): If we take a close look at the emergence of the financial crisis in 2007/2008 it quickly becomes obvious that the only institutions which are able to diagnose a comprehensive financial crisis are the banks: The decisive event was the breakdown of the inter-banking trade in August 2007 as well as in September 2008. Retrospectively this can be regarded as the starting point of the ongoing financial crisis which is directly linked to the self-regulation of the financial institutions: Since nobody else is able to check the validity of the balance sheets of banks, it is only the actors on the financial markets, that can declare a crisis. We would like to illustrate how little overview let alone influence politicians have in this area with a quote from the former German financial minister who declared on 25 September 2008, that is only a few hours before the emergency meeting between the German government and representatives of the major German banks, that „the financial crisis is mainly an American problem“ (Schäfer 2009: 203). Leading Swiss politicians made similar statements. It is thus no surprise that journalists like the chief of the economy department of the daily German newspaper Süddeutsche Zeitung considered the crisis a blackmail by the financial markets (Schäfer 2009: 205). Critical economists like the American Michael Hudson even went so far as to speak of a coup of the „banksters“ (Hudson 2008).

This influence of banks on politics leads us to the power of action and decision. There are mainly two reasons why the political system in contemporary democracies can get under heavy pressure from the financial markets: First there is the aforementioned monopoly on the diagnosis of crisis, on the other hand we have the fact, that due the huge amount of public debt and the independence of central banks virtually all nation states have to rely on good relations with the financial markets. Just to cite one example among many for this progressing financialization of society: pension funds invest their assets, i.e. the future pensions of a lot of employees, into financial markets hoping for a maximal return on investment. Thus it seems highly likely that a possible breakdown of institutions which are very important for the functioning of the system would have far-reaching consequences for society as a whole (so called systemic risk). Another popular way to formulate this interconnectedness was the “too big to fail” slogan.

The mutual work on the rescue packages from the state – which we interpret as a form of power of mobilisation – of politicians and representatives of the major banks appears then as a almost logical consequence of these structural implications. We would like to remind the reader that the bailout had not enough support at all during its first reading in the Congress. The necessary majority was established only a couple of days later – we are left with speculations on the degree of influence and/or pressure exercised on the Congressmen in between to convince them, that and why it was necessary to enact the bailout in such a form (keyword: lobbying). In Germany not even the
members of parliament belonging to the oppositional fraction voted against the so-called Finanzmarktstabilitätsgesetz [law on stability of financial markets], although no form of parliamentary, i.e. democratic control was implemented regarding the use of these funds.11

During the G-20 summit in London in April 2009, where countermeasures to the crisis were discussed and implemented, the responsible persons were the ministers of finance on one hand and the directors of the central banks on the other hand. This can be regarded as an extreme form of lobbying which we interpret as power of position: Lobbying nowadays does not take place indirectly through gratifications for chosen members of parliament but very directly – the person in the government which is most responsible for financial affairs is closely related to the big banks. It is thus hardly surprising that the state aid packages were constructed in such a form that mainly those institutions profited from this process that already belonged to the more powerful actors in the field: „In both cases, before and after the financial crisis, the biggest players on the market had the biggest benefits: before the crisis the highest gains and after the crisis the farthest reaching liquidity guarantees.” (Honegger et al. 2010: 311).

In the last part of this section concerning the power-matrix we will focus on different forms of power relations between big banks and mass media. Andreas Langenohl reminds us, that in the last 100 years „the presence of financial markets in mass media has increased a lot” (Langenohl 2009: 253), which can be seen not the least in the way how actors on financial markets try not only to shape but also to anticipate the perception and the image of financial products in the media. Following up on Michel Callon we can observe how „framing”12 plays an important role concerning the perception of financial markets of laymen (Callon 1998). At the same time news become more and more a form of merchandise. Critical media theorists have interpreted this process as the ability to medially create, or even invent reality (Parenti 1993). As a consequence of this we expect far reaching interconnections between financial markets and mass media, as they can be observed for example in the fact that the two biggest wire agencies – Reuter’s and AP – now belong to the Canadian financial agglomerate Thomson.13

Regarding the central forms of power relations in this field of society we have to be rather cursory compared to economy and politics since research in this area began only very recently (Reichert 2009). A crucial element of the heavy influence exercised by financial institutions upon average consumers lies in the fact that over the last 20 years we saw a massive increase in the amount of reports regarding the financial markets and written with laypeople in mind which led to a de-mystification of stock markets.14 Until the 1990ies the masses considered investing in stocks as something reserved for the upper classes of society. We put forth the hypothesis that as a result of this PR campaign a rising number of persons from the middle class began investing their savings in stocks. From there it was only a small step to motivate them to invest their money into products which can bring more profit – but which at the same time are also more risky. This is an important form of the power of mobilization.

We see a connection to the ability of institutional actors on financial markets to influence the direction of media reports about financial markets in general through advertisement (power of position). Over the last 10 years this form of influence-taking has gained importance through the advent of free newspapers. These papers have very small editorial staff and rely heavily on wire services like Reuter’s or AP, which leads to a high selectivity of reported news – these papers focus on news that „sell”, i.e. crime, sex and celebrities. It is more important to provide the latest news fast than to research them in-depth. At the same time free newspapers follow the ‘infotainment’ paradigm (Postman 1985) and are – due to being available to the readers for free while still having costs of printing etc. – totally dependent on revenue generated through advertisements. At the same time an increasing concentration of the media landscape in the hands of very few huge concerns can be observed concerning which we cannot get into in detail here due to place constraints. It can be assumed, though, that actors with more accumulated wealth are in a stronger position to influence the public opinion.15

Finally we would like to turn our attention to the power of data setting which is especially visible regarding the publication of balance sheet of banks and other financial institutions. As already mentioned, it is very difficult or almost impossible to obtain exact numbers about the actual balance sheet of banks. Concerning companies the situation is slightly different: they are obliged to publish their numbers due to the public character of stock exchange. However, the published numbers are not always reliable: A report of the GAO [General Accountability Office, then: General Accounting Office] showed that between January 1997 and June 2002 around 900 published financial informations had to be corrected due to substantial errors.
This corresponds to around 10% of companies from the NYSE. In the following years these numbers have risen dramatically. The scandal around the energy corporation Enron was the case which received most public attention worldwide. Enron broke down in December 2001 as the result of one of the biggest accounting scandals till then. It is hard to establish a direct connection between this corporation and the major banks. Fact is though, that not only the Bank of America and Lehman Brothers but also Citigroup and J.P.Morgan reached out of court agreements and paid totally five billion USD to affected investors. However they refused to acknowledge any form of guilt. The prosecutors accused the banks of helping Enron to falsify their financial statements and to cover up their indebtedness. Another charge was that analysts knowingly formulated wrong stock evaluations (FAZnet, 15 June 2005).

Finally it can be argued that regarding the steerage of the perception of the crisis mass media have a huge impact on how the public opinion perceives the events on financial markets. The involved persons consider it to be so huge that at the outbreak of the financial crisis the German chancellor Angela Merkel met the chief editors of the biggest German daily newspapers to suggest to them a cool-headed coverage.

**Conclusion**

Analyses of power relations in contemporary society often face the objection that they are overly pessimistic, even fatalistic, and that they do not offer any solutions for improvements of the situation. Obviously this article is not the right place to start a political debate on possible reforms of the financial system (see Mügge in this issue). Instead we would like to draw your attention to the concept of profanations in the sense that Giorgio Agamben (2007 [2005]) gave to this word in his essay *In Praise of Profanation*.

What is a profanation? According to Agamben it means to „return things to the free use of men“ (Agamben 2007: 73), things, that had been first sacralized. Distinguishing profanation from secularization, Agamben connects the former to the concept of power in a very specific way: „[profanation] deactivates the apparatuses of power and returns to common use the spaces that power had seized“ (Agamben 2007: 77). In his essay Agamben refers to Walter Benjamin’s classical fragment *Capitalism as Religion*. In his thesis on the religious character of the capitalist system Benjamin identified three principal traits of such a theological conception of Capitalism. First, it is a „purely cultic religion, perhaps the most extreme that ever existed“ (Benjamin 2004 [1921]: 288). This means that it does not need specific dogmas or even a theology to function. Second, it is the only religion where the cult is permanent. There is no „weekday“ in the capitalist system – the celebration of God through the flow of money never stops. Third, it is the first religion ever which is not directed at the absolution or repentance of its followers but at their guilt (*Schuld* in German which at the same time means “debt”) – one of the main functions of capitalism being the production of relations of debt. Benjamin identifies a fourth trait as well regarding the representation of God when he wrote that „its God must become concealed“ (Benjamin 2004 [1921]: 289).

Agamben concludes his lucid analysis with the thesis that in the meantime capitalism has managed to „generalize in every domain the structure of separation the defines religion“ (Agamben 2007: 81) which makes profanation very difficult, albeit not impossible, thus making „the profanation of the unprofanable the political task of the coming generation“ (Agamben 2007: 92). We would like to leave it to the imagination of the reader to think of possible connections between financial markets, religious structures and profanations.

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**Dietmar J. Wetzel** is a researcher and lecturer in sociology at the University of Berne, Switzerland (since 2007). He is also a lecturer at the Institute of Advanced Study in the Humanities and the Social Sciences (IASH), University of Berne, since 2010. His recent research deals with sociology of competition in different social fields (habilitation, to be completed in 2011 at the Friedrich-Schiller-Universität, Jena) and the developments on the financial market, especially in Germany and Switzerland. Among his publications are: Elegant verrechnet – zur prekären Lage der ökonomischen Wissenschaften, in: Honegger, Claudia et al. (2010), Strukturierte Verantwortungslosigkeit. Berichte aus der Bankenwelt, *Berlin: Suhrkamp*, S. 293-301; Konturen einer Branche im Umbruch: Das Bankenfeld in Deutschland, Österreich und der Schweiz *(mit Lukas Hofstätter und Mar-
the bank’s overall assets” (Crotty 2009: 570, our accentuation). For Citigroup this represented about half banking loans more expensive and hindering the circulation of tile. Usually it varies by one or two hundreds of a percent, now it account for short-term lending between banks became very vola-
ite. Usually it varies by one or two hundreds of a percent, now it

Endnotes

1 Cf. Woxforth 1997 and Pfeiffer 1993. Other than the usual analys-
es of the power of banks we aren’t interested in the interdepen-
dences between banks and companies, like the proxy voting power
or seats in directories (cf. Brendel 2001), but intend to analyse far
reaching forms of power in relation to society as a whole.

2 The notion of power relations as opposed to a quasi-ontological
analysis of power stems from Michel Foucault. He defines a
“power relation” as an “action that tries to influence the action
of others” (Foucault 1982:220).

3 In Germany the Deutsche Bank can be considered the main
winner, in Switzerland this position belongs to Crédit Suisse, while
the UBS in Switzerland and the Hypo Real Estate in Germany
belong to the losers who needed state rescue, cf. Wetz-
zel/Hofstätter/Flück 2010.

4 According to the Wall Street Journal „the participation of Ken
Lewis, CEO of the Bank of America, Jamie Dimon, CEO of
J.P.Morgan Chase; Lloyd Blankfein, CEO of the Goldman Sachs
Gruppe; John Mack, CEO of Morgan Stanley; and Robert P. Kelly,
CEO of the Bank of New York Mellon“ was expected.

5 The problem with securitizations is that the risk of a loan is
being transferred from the bank which gives the loan to the
market and can have as a consequence that the bank does not
pay that much attention to whom it provides with loans as long
as it can make sure that someone else buys the securitization.

6 “At the end of 2007, J.P.Morgan Chase & Co. and Citigroup
each had nearly $1 trillion in assets held off their books in special
securitization vehicles. For Citigroup this represented about half
the bank’s overall assets” (Crotty 2009: 570, our accentuation).

7 Wagster points out that already before the implementation of
Basel-I, „banks greatly increased their level of involvement in
contingent, as opposed to immediate, claims on the bank (,...)
so-called off-balance sheet activities” (Wagster 1996: 1324).

8 On 9 August 2007 (...) the interest rate which is taken into
account for short-term lending between banks became very vola-
itile. Usually it varies by one or two hundreds of a percent, now it
had suddenly risen by 70 hundreds. Banks were making inter-
banking loans more expensive and hindering the circulation of
money “ (FAZ, 14 February 2009).

9 „But the inter-banking trade didn’t exist. ‘The financial
markets completely broke down’ said Christoph Rieger from
Dresdner Kleinwort. ‘The central banks are the only ones who put
money into the market, nobody else is lending anything.’ The
important point of reference in the inter-banking trade, the daily
libor for the USD, rose as high as never before, by 481 basis
points to 6,88 per cent, and ranks much higher than the prime
interest rates of the central banks (EU: 4,25 per cent, USA: 2 per
cent).“ (Frankfurter Rundschau, 01 October 2008).

10 Cf. the interview with Charles Wyplosz, a professor in econom-
ics from Geneva in the Swiss daily newspaper NZZ on 3 January
2010: „NZZ: How healthy is the financial and banking system
these days? CW: This is the well protected secret of the regulators
like the Finma [the Swiss SEC] (....) The public opinion never knows
how good or bad the balance sheet of the banks really are.”

11 Just to remind the casual reader that in many industrial coun-
tries the current ministers of finance are former employees of big
financial institutes: Henry Paulson (USA) came from Goldman
Sachs, Hans-Rudolf Merz (Switzerland) from the UBS. Already
Robert Rubin, American treasury secretary in the 1990ies, came

12 Cf. Thompson 2009 for an overview of two academic and four
popular frames of the ongoing financial crisis.

13 Cf. Hack 2007 for a reconstruction of the role this transna-
tional company played in the concentration processes in European
economy in the last 30 years.

14 Which is not equal to more transparency on the financial markets.

15 Just one example from Switzerland: The widely read left-liberal
magazine Weltwoche was bought in 2002 by Tito Tettamanti,
a wealthy investor. Before the purchase the magazine featured a wide
range of political opinions. After a very short time span many journal-
ists left the magazine and it became an important propaganda tool
for neoliberal thinking, sometimes with latently racist tendencies.

16 Source: http://www.nwp.bwl.uni-
muenchen.de/files/download/bilanzskandale.pdf

17 Only half a year later the revision of the financial statements of
Worldcom, a transnational company in the field of telecommuni-
cation, found out grave discrepancies. Expenses had been
accounted for as investments, which increased the revenues by
3,8 billion USD. The responsible managers were sentenced to high

CCF69275D--ATpl-Econom-Content.html

19 Of course, Benjamin was not the first one to make this com-
parison. Another well-known author who dedicated a whole book
to the subject was Paul LaFargue. In 1886 he published La religion
du capital where he describes the limitless power of capital
consisting in four interrelated traits: a) ubiquity of capital, b) capital as “prime substance” and “world soul”, c) the ability of
capital to transform and destroy all that exists and d) capital as real and thus true God (Lafargue 2009: 94). Recently quite a large number of publications on the analogy between capitalism and religion has been published. To name just a few: Baeker 2003, Deutschmann 2001, Fleischmann 2010, Goodchild 2002, 2009, Grau 2004, Knitter/Muzaffar 2002.

Benjamin Barber (2007) identifies five forms of the rule of the market: ubiquity, omnipresence, addictive character, self-replication and omnilegitimacy.

References


### Appendix

Table 1: Matrix of power relations for major banks

<table>
<thead>
<tr>
<th>Power of Definition</th>
<th>Economy</th>
<th>Politics</th>
<th>Media</th>
</tr>
</thead>
<tbody>
<tr>
<td>To configure structured products</td>
<td>To diagnose the crisis</td>
<td>Information management</td>
<td></td>
</tr>
<tr>
<td>Power of Acting and Deciding</td>
<td>To communicate a ‘credit crunch’</td>
<td>Pressure through (systemic) threats</td>
<td>To produce in-transparency</td>
</tr>
<tr>
<td>Power of Action and Mobilization</td>
<td>Capital accumulation, Mergers</td>
<td>To prepare the rescue packages</td>
<td>Motivate to investments</td>
</tr>
<tr>
<td>Power of Data Setting</td>
<td>Setting up rules for capital quota (Basel I and II)</td>
<td>Interest rates</td>
<td>Publication of Balance Sheet</td>
</tr>
<tr>
<td>Power of Position</td>
<td>Stabilizing or destabilizing effect</td>
<td>Lobbying</td>
<td>Advertising</td>
</tr>
</tbody>
</table>