

The Bureaucratic Industrial Complex

by Charles B. Wendel

What is going on with the growth of bureaucracies at banks? Are internal staff bureaucracies now in control of most banks and other financial services players? And has the current focus on ESG (with an emphasis on the “S for Social issues), rather than improving the customer experience, become a hindrance to customer relationships and bank profitability?

Mathew Crawford authored an article printed on a UK website (<https://unherd.com/2021/10/the-new-covid-despotism/>) and reprinted on the *realclearpolitics.com* site. While much of the article focuses on Covid and what Crawford terms “the absurdities of covid theatre” he also highlights a discussion of what is termed the administrative state. While the administrative state mentioned in the quote below is governmental, a similar administrative state has gained power at many banks, supplanting the leadership role historically held by line personnel.

Crawford states, “The Columbia law professor Philip Hamburger writes about the administrative state. It consists of a vast array of executive agencies that empower themselves to place people under binding obligations without recourse to legislation, sidestepping the Constitution’s separation of powers. In theory, only Congress can make laws. Its members are subject to the democratic process, so they must persuade their constituents, and one another. But as the administrative state has metastasized, supplanting the lawmaking power of the legislature, unelected bureaucrats increasingly set the contours of modern life with little accountability. They stake their legitimacy on claims of expertise rather than alignment with popular preferences.

He went on to link the rise of the bureaucratic administrative state to the Star chamber of 15-17th century England: “Ever tempted to exert more power with less effort, rulers are rarely content to govern merely through the law, and in their restless desire to escape its pathways, many of them try to work through other mechanisms.” Simply stated, they grab more power.

Once a group of bureaucrats gains power, reducing challenges to that power faces stiff opposition and requires a prolonged focus by leaders who both identify the negative aspects of bureaucracy and are willing to focus on it for as long and it takes to modify its strengths. I sure some bank leaders have permanently reduced the size and power of their internal bureaucracies; I just don’t know who those leaders are. And it is not that bureaucrats are evil or lack good intentions. Bureaucrats see a need, a gap that needs filling; most have what believe is the best interest of the bank in mind. Almost inevitably, they continue to grow in number and decision-making influence.

Reducing an entrenched corporate power group of support personnel is more difficult than ever, given increased regulatory activity. And, of course, covid is a gift to bureaucrats who build their positions on introducing and enforcing new rules, whether or not those rules are reasonable. Most Fintechs and some of the most efficient banks simply do not have the bureaucratic structure that predominates at many banks. This may give these players a significant competitive edge.

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