Taking Back Credit:

Democratizing Money, And Using It For Us, Instead of Against Us

Jim Stanford, Economist, Canadian Auto Workers
Group of 78 – Ottawa, November 2011
MY GOAL: To Demystify & Reclaim Economics...

www.economicsforeveryone.com

- Excerpts
- Lesson plans
- Resources
- Glossary
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Step 1: Demystify the Economy
What is the Economy?

WORK
Work, Production, Value

- Work = productive human effort
- All production involves performing work to transform material goods harvested from nature and perform useful services
- Different types of work
  - Goods / Services
  - Private sector / Public sector
  - “Highly skilled” / “Less skilled”
  - Paid / Unpaid
  - Even “management”!
- Work is the source of all “value-added”
Step 2: Demystify the Crisis

• Economy = sum total of the work we perform, to meet our needs and wants
• We can work today as well as ever
  - In fact, we can work better (technology, skills, productivity)
• So why are we in a “crisis”???
• Ignore the financial mumbo-jumbo
• Focus attention on real work, production
• Demand our right to work and produce!
Where Did This Crisis Come From, Anyway?
Where Did This Crisis Come From, Anyway?
Global Financial Crisis
MOAM

Mother Of All Meltdowns
The Long-Awaited Demise Of Capitalism As We Know It
BFEC

Big ...
Step 3: Demystify Money, Credit, and Finance

• What do brokers and bankers and derivative traders actually do??
• What do they actually produce??
• Who are they accountable to???
The “Real” Economy and the “Paper” Economy
**The Real Economy and the Paper Economy**

- **Real Economy**: the work we all do to meet our material needs & wants
- **Paper Economy**: financial sector; plays a different, unique role
  - Not directly productive
  - Trades in paper assets
- **Theory**: Paper economy facilitates, lubricates real investment & production
- **Practice**: For every $1 of productive lending & finance, the paper economy spends $100 on speculation (buying/selling existing assets)
Off the Rails

• Paper economy is supposed to serve the real economy
• In practice, paper economy ends up serving itself
• Fundamental sources of the problem ("hard-wired" into system’s DNA):
  - Profit motive in private credit
  - Speculative motivation
  - Deregulation / leveraging / globalization
• Paper economy exhibits a repeating, predictable cycle of crisis
The Private Credit System

- Private banks have a license to "print money" (ie. create credit)
  - Credit is essential to our economy
  - Like a "utility."
  - But we "outsourced" the job to banks
- They create credit in order to maximize their own profit
  - Too much some times
  - Too little some times (bankers’ cycle)
- Must hold banking system to account to meet society's need for steady credit
Financialization

- Since early 1980s, policy emphasized financial activity over real production
- Employment and real production kept under tight control
  - Jargon: Need to control inflation
  - Reality: Goal is to control workers!
- But finance was given total freedom:
  - Deregulation
  - Speculation
- Economic “split personality”
  - Political/cultural effect: “Stock-marketization”
Can Everybody Really “Play the Markets”?

<table>
<thead>
<tr>
<th></th>
<th>Top 10%</th>
<th>Top 1%</th>
<th>Billionaires</th>
<th>Bottom 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>58%</td>
<td>about ?</td>
<td>6% (61)</td>
<td>3%</td>
</tr>
<tr>
<td><strong>U.S.</strong></td>
<td>71%</td>
<td>34%</td>
<td>6% (~500)</td>
<td>2%</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>57%</td>
<td>32%</td>
<td>n.a.</td>
<td>4%</td>
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</tbody>
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Financialization and the 1%

- Top 1% own one-third of financial wealth.
- They get more income from financial wealth than others.
  - Over 50% of declared capital gains & dividends
  - 17% of all income (including capital gains)
  - 31% of all new income in last decade
- They have supported financialization:
  - Higher financial returns
  - More financial freedom
  - Lower financial taxes
Wha’ Happened?

- Speculative bubble (again):
  - Centred in U.S. housing
- Fueled by aggressive, irresponsible lending
  - “NINJA” mortgages
- Speculators borrowed at 50:1 or more
- U.S. housing prices began falling in 2006
- Chain reaction of collapse, deleveraging
- Blow to wealth, confidence, lending, investment, spending ➔ RECESSION
- Globalization made things far worse
Been There, Done That, Got the T-Shirt

• **1978–1981**: Neoliberalism is born with interest rate crisis
• **Mid-1980s**: U.S. savings and loans crisis
• **1994**: Peso crisis
• **1997–98**: Asian financial crisis / Russian bond crisis
• **2000–01**: Internet stock market collapse
• **2007–08**: U.S. subprime meltdown
• **2012? 2014? 2016?**
Round 2 of Crisis: Greek Tragedy?

• Rebound in most countries was due solely to government stimulus.
• That stimulus is now cut off as governments obsess on deficits & debt.
• With no job-creation, GDP stops growing (or shrinks): debt gets worse.
• Financial speculators and leveraged credit system make it all worse.
Demystifying the European Crisis

• Conventional story: “markets” have “lost confidence” in ability of nations to repay.

• More accurate description: banks and wealthy financial investors are demanding (and getting) much higher interest rates on loans to sovereign governments.
  - For lending money they created out of thin air!

• Focus has been on keeping finance happy...
  - Rather than asking why it has such power.
2000s: Euro banks create huge credit out of thin air

They lend some of that credit to Greece & others

2008-09: Global financial crisis & recession

Speculators sell Euro debt for profit, drive up int. rate

Debt burdens skyrocket (consequence of crisis, not cause)

Recession causes deficits & debt to grow (automatically)

EU, IMF, “troika” dictate severe austerity

Huge cuts, sky-high int. rates make recession and debt worse

Inevitable defaults threaten collapse of Euro banks

Race is on to rescue the banks (not to rescue Greece):

• taxpayer-funded bailout fund

• “recapitalization” of European banks
Watch Out...
WE are Now the Target

- Conservatives have exploited fear, confusion, and power over media to blame workers (esp. public sector) for crisis caused by private finance.
- Now they will try to make US pay for a crisis THEY created.
  - Especially union members
- Foster inequality & envy among workers.
  - “Divide and conquer.”
  - “Misery loves company.”
Our Economic “To-Do” List

• Explain where this crisis came from
  - It wasn’t caused by workers
  - It was caused by finance
  - It wasn’t a random accident
  - It will happen again, if rules aren’t changed

• Reclaim the value & legitimacy of real work and production

• Resist attempts to make us pay

• Fight for an alternative economic vision that puts production ahead of finance
Taking Back Credit

- **Regulate finance:**
  - Ban dangerous, unproductive activity.
  - Require safer practices (leveraging, quality of debt, firewalls, globalization).

- **Tax finance:**
  - Tobin tax?
  - Corporate income tax: 3% = $1.5 b/yr.
  - Eliminate tax subsidies.

- **Take back finance:**
  - We can create money out of thin air as well as a private bank can.
  - Use that power for production, not speculation.
A High-Investment Sustainable Economy

- Get more investment, and in better places, than would be forthcoming from capitalists on their own
  - Public as well as private
- Manage the overall impacts of growth to maximize social benefit, minimize environmental costs
- Internally consistent policy mix:
  - Fiscal
  - Macro
  - Infrastructure
  - Innovation
  - Trade/Industrial
  - Labour/Social
  - Financial Regulation
Declare “War,” End Recession

• 1939: Recession ended immediately
  - Enormous social challenge
  - Side-stepped profit motive for initiating work and production

• 2011: Do it again:
  - Declare war on pollution, poverty
We Produce... ...They Don't

We Didn't Cause the Crisis...They Did
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