



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**

ECONOMICS FOR EVERYONE

A
SHORT
GUIDE
TO
THE
ECONOMICS
OF
CAPITALISM

JIM
STANFORD

MY GOAL:
To Demystify &
Reclaim Economics...

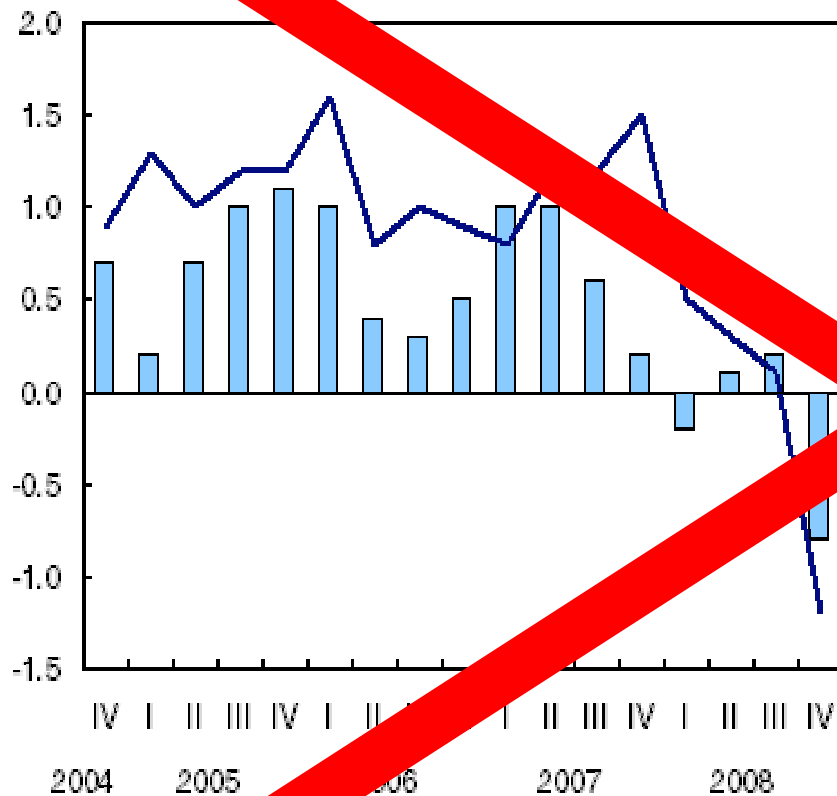
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- Excerpts
- Lesson plans
- Resources
- Glossary
- Blog
- Feedback

Step 1: Demystify the Economy

Final domestic demand declines

quarterly % change, chained (2002) dollars



— Gross domestic product at market prices

— Final domestic demand



What is the Economy?



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?



GFC

Global **F**inancial **C**risis

MOAM

Mother **O**f **A**ll **M**eltdowns

TLADOCAWKI

**The Long-Awaited Demise
Of Capitalism
As We Know It**

BFE C

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
 - Globalization
 - Speculation
 - Tax Subsidies
- Economic “split personality”
 - Political/cultural effect: “Stock-marketization”

Can Everybody Really "Play the Markets"?

Distribution of Financial Wealth				
	Top 10%	Top 1%	Billion- aires	Bottom 50%
Canada	58%	about ?	6% (61)	3%
U.S.	71%	34%	6% (~ 500)	2%
World	57%	32%	n.a.	4%

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?

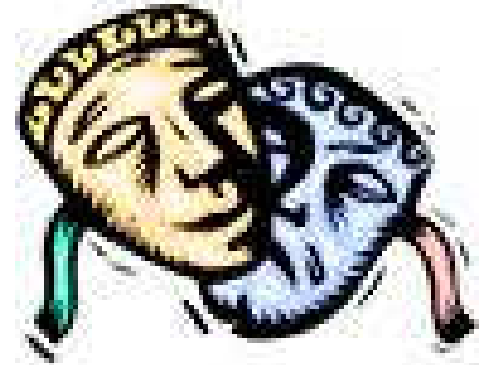


- Speculative bubble (again):
 - Centred in U.S. housing
- Fueled by aggressive, irresponsible lending
 - "NINJA" mortgages
- Speculators borrowed at 50:1 or more
- U.S. housing prices began falling in 2006
- Chain reaction of collapse, deleveraging
- Blow to wealth, confidence, lending, investment, 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.



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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