

Financialization, Inequality and how to address them

Underlying trends:

- Wall Street taking over Main Street: both ideologically and in political power, corporate power has grown and support for government declined sharply.
- Union and labor power under attack
- Erode safety net
- Taxation of rich and corporations eroding
- Businesses becoming financial institutions, e.g. Ford, GE
- Enforcement of anti-trust essentially over
- Money ever more influential in government and public sphere

According to a study by the International Labor Organization, financial strip mining was the factor most responsible for wage stagnation – 45% financialization, 19% globalization, 10% technology, 25% government cutbacks (cited by Les Leopold, Runaway Inequality)

Results:

- Increasing wealth and income inequality CEOs make about 350x average worker
- Increasing dependence on debt
 - Seen as solution to college affordability also subprime mortgages
 - Source of economic growth
- Creation of financial derivatives and other financial “engineering”
- Predatory and racially discriminatory finance allowed
 - Sub-prime mortgage issuance
- Local governments becoming beholden to Wall St.
 - Privatization of schools and other essential services
- Decrease in social mobility
- Health care system inaccessible to many
- Pensions, social security eroding, replaced by “defined contribution” plans (or nothing)
- Corporate consolidation, creation of monopolies
- Private equity takeover of corporations and “downsizing”
- Incarceration (this is more driven by other factors than financialization)
- Erosion of taxation
 - less progressive, less fair
 - labor taxed at much higher rates than capital
 - tax incentives to debt
- Capture of regulation by corporate interests, especially Wall St.
- Financial instability
 - Debt-based economy is inherently less stable
 - Financial engineering can introduce instability
- Political instability

Solutions:

- Change the narrative – finance does not create wealth, it extracts it
- Discourage debt
- Adequate safety net
- Progressive taxation
- Power to the people (reduce power of corporations and wealthy)
- Redefine Property Rights (to be elaborated on at some future date)
 - Change the narrative

Specific measures:

- Financial measures:
 - Public banks (reduce local gov't dependence on Wall St.)
 - Postal savings banks
 - Limit leverage in very large financial institutions (of all sorts)
 - More bank capital as recommended by Admati & Helwig and others
 - Eliminate tax advantages of debt
 - Tax capital and wealth – end tax preferences on unearned income
 - Tax on financial transactions
 - Restrict complexity on Wall Street
 - Simpler, more understandable regulation
 - End CEO stock options; stock buybacks
- Broaden anti-trust enforcement
- Labor reforms
 - Minimum and maximum wages
 - Worker Coops
 - Job guarantee, BIG or other effective safety net
- Safety net
 - Universal health program
 - Free and high-quality education including civics
 - Reform Social Security
- Criminal justice and bail reform
- Public financing of elections, ranked choice voting
- Develop expertise within government, not dependent on lobbyists
- Change the narrative: Redefine “makers” and “takers”, See “Free Market Ideology”,
 - There is a society, Sociologists not economists