

After the Crisis: making financial services work for consumers

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Ai

MAKING THE COMPLEX POWERFULLY **SIMPLE**



WHAT THE HELL IS
WRONG WITH YOU PEOPLE?!
ROW..! ROW..!
YOU WANT US ALL TO
DROWN?!

Polyp.org.uk

'THE SAME BOAT'



“..... citizens will be burdened for many years with either higher taxes or cuts in public services - because of an economic crisis whose origins lay in the financial system.....



....a crisis cooked up in trading rooms where not just a few, but many people earned annual bonuses equal to a lifetime's earnings of some of those now suffering the consequences."

Lord Adair Turner, Chair of the Financial Services Authority, UK. Mansion House speech, 22 September 2009.







JOB WANTED

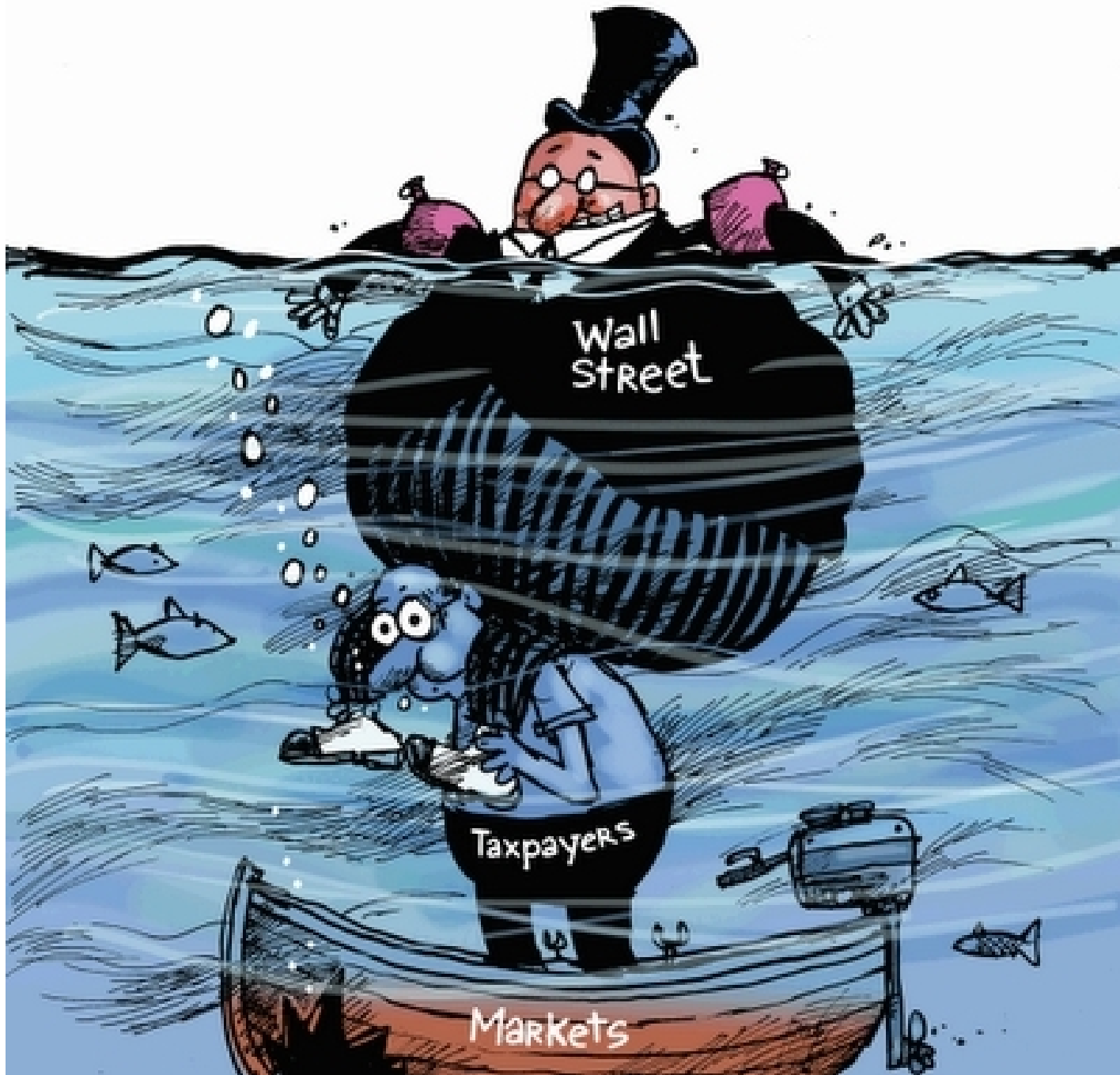
History Graduate
University of Kent

INTERVIEW ME

Prepared to work
first month
FREE!

Then Hire or
Fire Me

Thanks for Looking
David



First Risk:

Misunderstanding of
money/credit

= Policy errors

“Markets provide the money
states need to finance their
debts.”

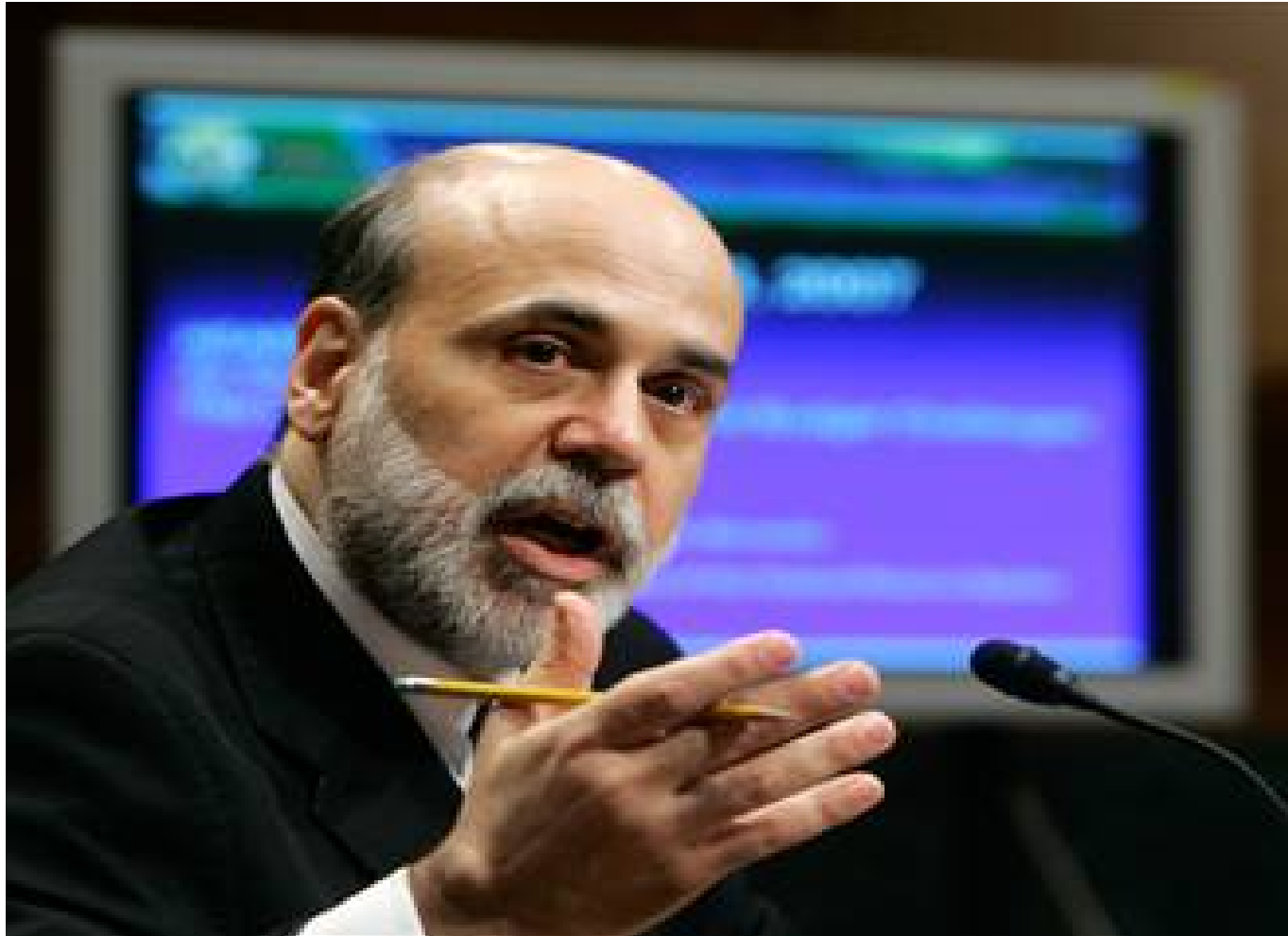
**“Europe at the crossroads. Institutional Choices for
Sound European Public Finance”**

Prof. Mark Hallerberg, PhD
Hertie School of Governance
Berlin, Germany

Orthodoxy: assumption that
money or credit
- like a commodity -
is subject to **market forces**
of supply and demand.

Or is the result of **market
exchange.**

It is not.

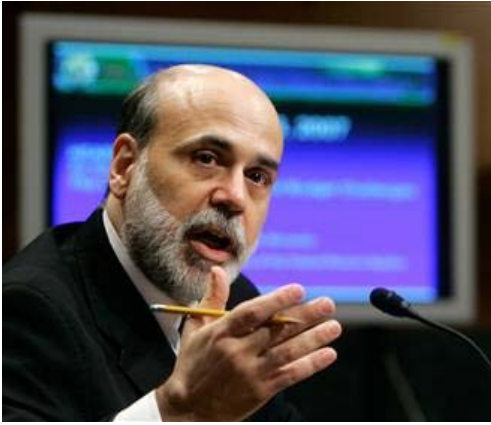


Governor Bernanke's 'magic'



Ben Bernanke, Fed Reserve Governor, interviewed on CBS. 60 Minutes Show 15 March 2009, soon after Fed had made \$160 billion available to AIG. Was it tax money?

Bernanke: "It's not tax money. The banks have accounts with the Fed, much the same way that you have an account in a commercial bank."



Bernanke: “So, to lend to a bank, we simply **use the computer** to mark up the size of the account that they have with the Fed.”

Bank Money
Not tangible



Bank money is *not a commodity*.

*There is no limit to the
availability of bank money.*

It is not visible/tangible

Unlike like **oil**

Or **gold**

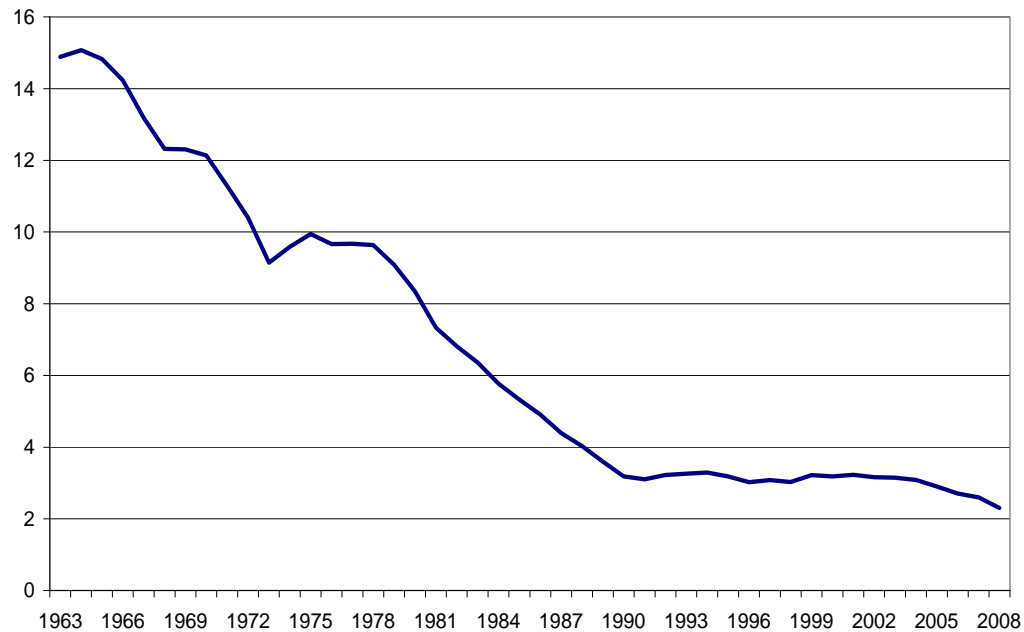
Or **tulips**



Notes and coins – tangible



Cash/Money Stock (BoE)



Only 2% of total money is cash



Treasury Secretary Tim Geithner,
Testimony to Congress
23 September, 2009

Geithner: flawed analysis of
financial system: **denies**
existence of credit

“Stripped of its complexities, the purpose of a financial system is to let those who want to **save** -whether for vacation, retirement or a rainy day -**save**.”



Treasury Secretary Tim Geithner,
Testimony to Congress
23 September, 2009

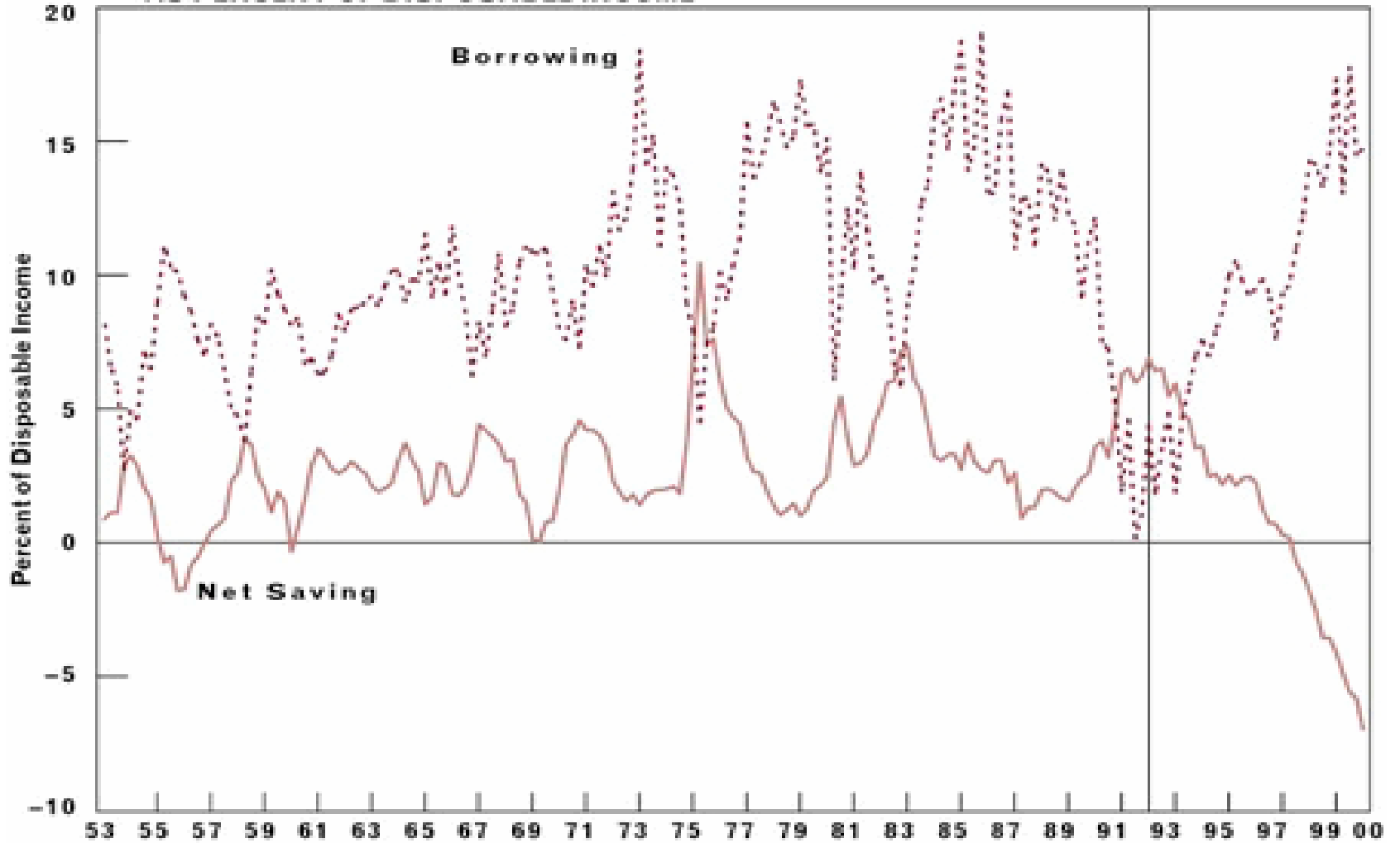
“It is to let those who want to ***borrow*** -
whether to buy a house or build a
business -borrow. “



Treasury Secretary Tim Geithner,
Testimony to Congress
23 September, 2009

“And it is to use our banks and other financial institutions to bring **savers’ funds** and **borrowers’ needs** together and carefully manage the risks involved in **transfers** between them.”

**CHART 1 PRIVATE NET SAVING AND BORROWING
AS PERCENT OF DISPOSABLE INCOME**



SOURCE: NIPA and Flow of Funds

Prof. Wynne Godley Jerome Levy Economics Institute. Policy Note, 2000.

The deep flaw in classical theory of economics:

That money
(deposits/**savings**/credit/gold)
exists only as the **result** of economic
activity.....

Flawed orthodoxy **ignores**
credit, argues that

Deposits/savings
(or vaults of gold) are
needed to
create economic activity.

Orthodoxy:

“ We can only *afford* what is already in the bank in the form of savings/deposits/gold.”

“What **we** can create,
we can afford.”

JM Keynes

“National Self-Sufficiency” The Yale Review, Vol 22, no4 (June 1933),
pp.755-769

JM Keynes (and Adam Smith/John Law/Benjamin Franklin/Joseph Schumpeter/President Roosevelt/ JK Galbraith):

“Credit *creates* **savings**/
deposits”

Economic activity *generates* saving,
it is not constrained by saving.

No constraint on finance

In a monetary economy, the relevant consideration is the availability of **finance** not of saving, and there is **no necessary constraint on finance.**

(Geoff Tily, Keynes and the financing of public works' August, 2009.)

<http://www.heterodoxnews.com/htnf/htn87/Tily%20Keynes.pdf>

Nature of finance/credit

- Nature of credit highly peculiar. Very different from the point of view of

- **an individual**

and from the point of view of

- **the system as a whole.**

Nature of finance/credit

- Individuals cannot **magic money** from nothing. But the fact is the system as a whole can magic money from nothing.
- This money can be used to bring economic activity into existence.

Money is a **social construct**

- Developed over **millennia**, by consumers, borrowers, lenders and citizens.
- Commercial paper became money when it was not tied to particular credit-debt relationship of **traders** - who knew each other
- - but could be used by **any bearer** for any purpose.

Stable social structure

This trust rests on a stable social structure
of **authority**
such as well-established governments,
traders or banks.

Trust

For a banking system to be developed
money/credit-creation must achieve a
high level of
trust

Bank Money/ *QE* issued by BoE – since Bank founded in 1694.



“Quantitative Easing” “Money Market Operations”

Credit/finance created by central banks: **funding** provided by the banks

Deutsche Bank



The banking system is a **public good**

Its purpose? To facilitate the allocation and deployment of economic resources, both spatially and temporarily to environmentally sustainable activities that maximise long-term financial and social returns under conditions of uncertainty.



National Peoples Action: Demonstration on K St. Washington 17 May, 2010 aimed at corporate lobbyists “driving gridlock in Washington....and to draw a line between Wall St and elected officials”. <http://showdowninamerica.org/showdown-k-street>

Regulation principles:

- Transparency
- Appropriate scale and proximity
-
- Diversity of function and ownership
- Stability
- Fairness, Competition and real value

Regulation principles

- That borrowing should be sustainable

Better regulation

- Macro-prudential regulation –
- designed to ‘lean into the wind’
- dampening upturns and
- reducing the severity of downturns.

Macroprudential **regulation** needs to take account of:

- The stage of the business cycle
- The level and composition of risk in the system as a whole
- The distribution (or concentrations) of risks.

Macroprudential regulation...

- The overall level of capital provisions
- The concentration of capital/provisions
- The rate of interest: for short/long/safe/risky loans

Separate **retail** banking from speculation

Break up banks that are 'too big to fail'

Launch an **enquiry** into the role played by ratings agencies and accountancy firms in the present crisis

Exclusive



MOVE YOUR MONEY

Establish **Credit unions**, community development finance institutions and community land trusts.

Put in place a **Social Investment Bank** at macro level

linked into a local **network** of adequately funded community development finance institutions (CDFIs) and other local financing institutions.

• **Mutual ownership**

- advantages in the housing sector
- could also play a significant role in emore diverse ecology of finance
- mutual forms of ownership need not be small scale.
- strengths at a much larger scale while links with the communities maintained

US **Community** Reinvestment Act

- Banks required to disclose activities, in particular in poorer communities
- a regime of monitoring lending, investments and financial services in communities traditionally underserved
- stimulated US banks to contribute to combating financial exclusion.

“We are capable of shutting off the sun and the stars because they do not pay a dividend.”

John Maynard Keynes

Thank You.

The logo consists of the letters 'A' and 'i' in a bold, serif font. The 'A' is uppercase and the 'i' is lowercase, with a dot above it.

MAKING THE COMPLEX POWERFULLY **SIMPLE**

[Advocacy International](http://www.debttonation.org)
www.debttonation.org

Slovenia, 18 May, 2010

