

Democratizing Finance – Real Utopias seminar

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University of Wisconsin-Madison

Participants (counterclockwise)

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Joe Conti (Sociology) [JC]

Sam Munger (COWS) [SM]

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Ayca Zayim (Sociology) [AZ]

Menzie Chinn (Public Policy) [MC]

Bob Freeland (Sociology) [BF]

Harry Brighthouse (Philosophy) [HB]

David O'Brian (Philosophy) [DOB]

Emanuel Ubert (Sociology) [EU]

Fred Block (Sociology) [Block]

Joel Rogers (COWS, everything) [JR]

Bradford Baham (Agg & Applied Economics) [BB]

Brent Hueth (Applied Economics, Center for Cooperatives, Census Research Data Center) [BH]

Block paper

EU: Does Block subscribe to RH's critique of loanable funds view of banking?

Block: Agrees with critique of loanable funds, but in LR $S=I$; "fictitious capital"

EOW: has to be balance between S, I (public vs. private), taxes (= public sector saving): available surplus and amount of future oriented productivity

MC: surplus vs. credit creation = two separate things

Block: RH does not emphasize enough that there has been enormous centralization of banking along with further acceleration of banking sector exit from real economy

-> Alternative institutions: good part of the economy need financial intermediaries; space for recreation on local level...have good history in US to construct those alternative intermediaries

-> Dropping out of banks from real economy create need for new intermediaries...

DOB: what is standard of feasibility?

-> Accessibility & sustainability

JR: lets not talk about it; all we need is existence of "self-paving" agent; ideally there is some loop between accessibility & sustainability...

EOW: achievability re: blockages; what kind of financial institutions would really fuel the kind of real economy that you want? Absent a big bang change, is there a plausible story re: partial implementation?

BH: What is democratization of finance & how to measure & track it?

-> Access & control of capital at the firm level (& ownership over means of finance)

Block: RH's "financing to make people's dreams true;" significant equalization of access to capital (abandoned inner urban center example)

EOW: egalitarian vs. democratic demands for projects: don't collapse them into one

-Access = on egalitarian side

-Priorities: how are they dictated = on democratic side

Brent: another dimension = public investment

RH: caution: don't speak too much from the supply side; capital access might not be the real problem; broader problem = shrinking demand (via concentration of income)

-> No longer (public or private) rational to provide capital to low demand areas...

Here: really revisiting the development problem (within US)

Block: but is there a bootstrapping strategy e.g. in inner urban city? If so, they need access to capital supply...

EOW: should include full board public sector jobs & activities in this discussion. There is tons of things to be done; maybe public goods & social infrastructure development could serve as bootstrapping, even without small businesses

-> To get finance into devastated area might no need to think about demand only if one considers public side

Block: credit state options much more likely to be sustained over time

JC: discussion of meta principles that are interrelated with the finance system design issue: between design & democratization

BF:

-financing can be directed into different destinations: maybe should take stock of that?

-Issue of efficiency: how to incorporate them into all levels

BB: other functions of financial markets are not really considered in either paper...

-Information & coordination problems?

EU: Both papers heavily invoke public agents as solutions/ alternatives, BUT, why would public agents solve relevant info & coordination issues in a more efficient manner than the private actors?

AZ: Central banking agent choices are super contained, especially by cross-country capital mobility

-> Capital controls are key

Block: could move into direction of capital controls; in 2009 possibility was really on the agenda

RH: sequence discussion into: what is feasible to do given financial autonomy within certain jurisdictions, then think globally (what is required to maintain national sovereignty)

MC: we're never gonna go back to gold standard

Block: need to write diagnostic chapter(s) as precursor to concrete proposals; would put the latter into context

BH: well-written diagnostics already exist (Shiler (2012); Helwig; other?)

-Neoclassical straw man: market fundamentalism & market orthodoxy but economics really subscribes to neither today

RH: Reserve economists have been excellent; his straw men are people in business schools, etc.

-> "Banks as financial intermediaries" advocates

EOW: RH's "collective funds view:" delegate management to private actors is different from status quo

DOB: different bits have different philosophical foundations

MC: is Small Business Administration not distributing enough money, not efficiently enough?

-> More access to capital

EOW: current mechanisms to allocate glut of capital = inadequate; ST horizon profit maximizing actors are not ideal in allocating capital today

-> Today too many people filling all niches

-> Not enough companies doing actually innovative stuff, etc.

BB: extend SBA to other enterprises; but why do we need SBAs at all to finance investor owned businesses? Banks do pretty good job already?

Block: SBA came in because banks weren't doing it; real problem = informational: all forms of lending are information intensive; institution needs to invest a lot into expert employees who judge investment opportunities

EU: information problems taken over by algorithms in banks anyway; in context of problem of allocating capital: why do we need hierarchical intermediary at all?

MC: intermediaries also pool; monitor and collateral

SM: credit union numbers are shrinking; fewer intermediaries in general, and the ones who remain have insufficient soft knowledge about (local) investment opportunities

JR: smaller institutions are actually pretty bad at evaluating local conditions & investment opportunities

EOW: definitely there are some projects that would be better with more funding; but solution to that problem is not same as selecting right project to fund...

BH: can always get some discriminating information re: businesses

DOB: trade-off between ?

Block: loan officers at local level really don't exist much any more; could expand that

EOW: P2P problem -> pooling, available information, power of algorithms, etc.?

MC: venture capital does not have super good track record?

JC: what does Block mean by probabilistic investing into high risk sector?

Block: elaborate structure of guarantees for early stage firms with high chance of failure

BH: labor fundamentalism issue; if there really is worker control, they are usually hard to manage & scale; worker owned firms don't align well on regional or sectoral dimensions

-> Beauty of all of above is that they are not built on ROI

-> ESOPs > worker coops

make sure that people on org board don't get their power from the capital that they provide = "commercial non-profits"

-> Need to talk more about ownership

Block: why he emphasized B-corps

RH: Have to answer Hansemann claims re: worker ownership

JR: in Block paper

-what is missing is post-industrial stuff?

-Add more politics, less structure

-> Household savings: big banks, etc. offer large retail services

EOW:

-Changing in nature of underlying forces of production in real economy are rapidly undercutting economies of scale: translation into less decentralized & local production + open source, digital design codes

- > Capital communally owned & used in lease form
[JR: structure of banking follows real economy...]
- > Financing problem for that mode of production: what model would work?
-> Financing would speed up this transition
- > Makes global capital flow issue less problematic; capital rooted more locally

Hockett paper

JR: Decentralization from his perspective vs. Block

RH: argument for centralization: more efficient to allocate privately provided capital
-> BUT: a lot of private capital is actually public capital: this undercuts some of the argument for hierarchical institutions; don't have to capitalize Block's institutions with private capital

JR: this addresses feasibility but not efficiency argument of Block's decentralization perspective

RH: could be that algorithmic lending is more efficient (or not); look to advent & spread of originator-distribute model in loans (late 1990s; after consolidation of banks in wake of S&L crisis); symbiotic causation; Fed has always had authority to regulate mortgages

FB: algorithmic vs. personal lending: mortgages don't work as test case because they have a lot of collateral; use small business?

MC: boom would have occurred independently of banking structure: innovation outpacing regulation
-> Anything we talk about here today will be subject to same (banking) boundary problem...

EOW: capacity to work around rules also due to liquidity glut; with greater equality have less of an incentive to work around rules

RH: ultimately cannot separate finance story from macro distribution story; issue: is there anything to finance on a lower level + issue of maintaining financial stability (more difficult to do so with high inequality: creates more impetus to construct high risk investment product)

EOW: originate-to-distribute: once you reject loanable-funds perspective, is there still constraint of capital creation?

RH: Still have capital requirements as percentage of total loan portfolio; so regulatory instituted loanable funds model?

-> Fundable loans model: criticism really only anchored in the fact that bank credit & liquidity creation are (no longer) limited by available funds: role of reserve & rise of shadow banking

RH: most of his proposals are regarding mandate change; then get right people into office who carry out those mandates

SM: no regulatory capture problem?

RH: capture story itself in need of disaggregation: also have culture, “reverse Stockholm syndrome” (e.g. Geithner)

BH: borrow from Block & introduce communitarian ownership

JR: channel 90% HH savings into basic, narrow type banks

RH: this still assumes deposit & lending functions are linked; why do we continue with that myth?

-> maintains sense of stability in currency, etc.

BF:

-RH seems to have a lot of faith that markets provide enough information to efficient allocation

-Public infrastructure authority guarantees: moral hazard issues

-> How to get around them?

RH: admits that he has too much faith in specialized bureaucrats

BF: competence does not matter, really about institutional structure, info, etc.

-> To move more into direction of public finance: might increase incentives to attract talent to work in the public sphere

EOW: re: public goods development:

-> Creator vs. Allocator credit: now separated (because of Hayekian info issues)

-> In public goods context: private actors don't necessarily have more info than public

RH: overlooked role of private actors in provision of public good; get some private return for the provision? (e.g. rural broadband, toll roads, etc.)

Block: democratic deficit problem: infrastructure problems increasingly subject to political considerations

-> You are not going to spend money well on public goods without democratic involvement

[Different allocation & funding destinations have different mechanisms?]

RH: traditional view of private capital supply function: info & supply function

-Supply function overstated

-Info (Hayekian)/ price discovery function might still be there

-> He wanted to maintain some role for private actor via invocation; hopefully not overstated

Counter-cyclical institutions need to be 1-2 steps removed from democratic decision-making

-> Not necessarily for infrastructure projects

EU: What do democratic institution look like anyway?

RH: want some steps removal from direct democracy/ the mob; removal of steps depends on mandate & sector of investment

EOW: participatory budgets in Porto A: disengage certain parts of the budget from direct participation, etc.

DOB: might not have a lot of public agreement on what is desert; even if we have, might not be sufficient to ground decisions normatively

-> Any other criterion apart from desert? Justice?

RH: desert as correlate to entitlement: some kind of ownership stake in the capital stock of society

-> Ownership entitlements more durable in our society/ legal culture than other kinds

JR: not just more durable, also gives people incentives; stakeholder psychology

-> also see Shiller

EOW: identification with system as a whole: need to have inalienable (& universal) ownership share

-> e.g. Alaska fund (contingent on residency)

Block: multiple externality argument for basic universal income

MC: (important to formulate very tight mandate to incentivize bureaucrats); open market operations on equities not so far afield from what has already happened; but what is the intent to do this?

= government back route into equity financing

-> so far, Fed has essentially bought government assets (MBSs)

-> gov equity financing blurs fiscal & quantitative policy: Fed taking on fiscal risk...

RH: the more fine grained you become the more fiscal you become

EOW: design principal: retain large private capital investors; or, alternatively, end up with government ownership

RH: get around ownership issue with synthesized instruments?

RH: new trending Fed policy: macro-prudentialism, pre-emptive policy in targeted asset classes (a bit like federal exchange trading); Fed as market maker, intervene when it comes out of band (expectation setting too)

JR: analogy to exchange rate interventions is good, but how?

RH: use SP index

EOW: Real Utopia problematic: how to make capitalism work better in smoother, less volatile way; above interventions are not directly addressing ultimate emancipatory ideals, rather set stage

-> Cannot foreground macro-prudential proposal

-> Also applies a little to the Polanyian perspective: re-embedding the market

BB:

-First part identifies shortcomings of existing capital markets

- Second part at level of regulation: if all is about the public, this legitimates activities on first level

-> How many functions of financial system are we taking on head-on?

EOW: in conference: don't accomplish everything at once, just highlight different aspects and hope people take on different aspects

BH: two myths

-Fundable loans model

-Profit allocates capital efficiently

RH: RFC originally coordinated all great federal capital allocation projects