Beg, Borrow, or Steal

Between Debt and the Devil: Money, Credit, and Fixing Global Finance
By Adair Turner
Princeton University Press, 2015
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How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy
By Mehrsa Baradaran
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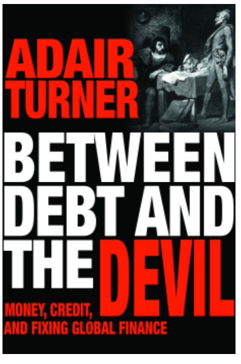

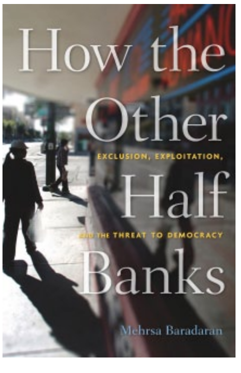

Financialization has been both the cost and the source of economic growth in our time. Americans held $13.8 quadrillion in outstanding mortgage debt during the first quarter of 2016, according to the Federal Reserve. In 2015, total private-sector debt in the United States amounted to twice the gross domestic product, up from 70 percent in 1960. In the vast literature that has appeared on the subject since 2008, two recent books approach the problem from different directions: Adair Turner's *Between Debt and the Devil: Money, Credit, and Fixing Global Finance* takes the perspective of a central bank boardroom, and Mehrsa Baradaran's *How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy*, the view of the desperate consumer.

Turner is a former McKinsey consultant who has had a hand in reorganizing the global economy over the past three decades. In the 1990s, he ran the company's operations in the former Eastern Bloc. After a stint as vice chairman of Merrill Lynch Europe, in 2009, he became the chairman of the Financial Services Authority—a sort of British analog to the American Securities and Exchange Commission—before the independent agency was dissolved in 2013. His most recent book collates with admirable contrition his conclusions from his time as the top regulator of London banking industry, and since as a senior fellow at the Soros-endowed Institute for New Economic Thinking: it is the well-received and influential critique of an insider, a template for any structural reforms to come.

Turner argues that the level of debt inundating the globe has left "all traditional policy levers . . . blocked." Sustained deleveraging is inhibiting effective demand and growth, but lower interest rates will only fund speculation and future crises. Expansive monetary and fiscal policies risk "adverse side effects" in the form of either inflation or sovereign default by governments that have bailed out their lending industries. "Banks left to themselves," he explains, "will produce too much of the wrong sort of debt."

This is the "inevitable result," Turner writes, of the "post-1970 increase in financial intensity." "Rising consumer credit helped maintain adequate demand in the face of rising inequality," he explains. "But because of rising inequality we need credit to grow faster than gross domestic product (GDP) growth simply to keep demand growing in line with productive potential." The result has been debt claims that persistently outrun new income, rehearsing a familiar routine: "unstable asset price cycles, crises, debt overhang, and post-crisis recession."

During the crisis, Turner felt some heat in the financial press for a candid aside at a panel—"I think some of it is socially useless activity," he said about "financial innovation"—and this line of thinking is here given some system and history. For example, Turner finds that urban real estate has served as a sort of lynchpin for contemporary global capitalism. The argument is startlingly similar to that of Marxist geographer David Harvey: as returns on productive investment fall in other sectors, Turner writes, increasingly, the best performing savings vehicles are scarce property in fashionable neighborhoods. By contrast, the new high-technology industries require less and less capital investment—Facebook, which makes a lot of money out of mostly nothing, is Turner's go-to example. So, firms with access to broad capital markets put unused savings toward bidding up the price of urban land. The result is that the majority of investment is speculative; it does not create new jobs or industries. Rather than the euthanasia of the rentier, the past forty years have been a homecoming for the landlords of the world.

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How did we get here? Commitments to "financial repression," as Turner refers to postwar regulations on credit creation, were more than ideological preference. Limits on currency speculation and capital mobility were integral to the maintenance of the Bretton Woods fixed-exchange rate regime and protection of the bankers' gold. But as capital became freely mobile—due to the private financing of postwar reconstruction, the growing volume of world trade, and the emergence of the multinational corporation—domestic credit regulations were increasingly ineffective. "If a company or household can hold or borrow money abroad," Turner explains, "domestic [financial] constraints lose traction." Commitments to New Deal–style macroeconomic regulation and monetary policy collided with anti-Communist business internationalism, and one had to give.

This leads Turner to more than a few stunning observations. "The idea that international financial integration is always and in all respects beneficial," he writes, "is a delusion." It was the absence of the "Washington consensus"—that semi-mandatory enthusiasm for central bank independence, free capital mobility, and financial sector competition and consolidation—that allowed for the vigorous and successful development of East Asia, he writes. Indeed, "the financial liberalization urged on East Asian countries . . . contributed directly to the real estate booms and short-term capital flows that led to the Asian financial crisis of 1997." As for global development, Turner is struck by how "faith in the benefits of global financial integration survives the lack of evidence." The fragmentation of the global financial system, invariably portrayed as perilous, "can in some specific ways be positively desirable."

Most remarkable are Turner's asides on the wider panoply of structural reforms that will have to follow re-regulation of the finance industry. These include a call for "more redistribution of income and wealth" and extending capital gains taxes to real estate to discourage speculative investment. "But while the case for land taxation was first made by the economist Henry George more than 100 years ago," he muses, regrettably, there are "few tax regimes [that] reflect its strength."

The "devil" of Turner's book is the inflation that might result from a redistribution of income. His preferred method is "monetized" public deficits—that is, for government treasuries to borrow from the central bank, rather than private lenders—a policy that he has defended in the financial press and for which he wrote an International Monetary Fund (IMF) white paper published November 2015.

Monetized deficits are taboo among financiers. A central bank printing new money devalues the currency, and with it, private-sector bond earnings. Today, monetized deficits would mark a departure from the past seven years only insofar as the new money is given to the government in exchange for nothing, rather than to financiers in exchange for already-existing bonds held in the market. Mehrsa Baradaran uses a simple thought experiment to illustrate this point at the beginning of her book on consumer finance, *How the Other Half Banks*. Two individuals run into an emergency and need cash fast; Tanya, a working mother, must take out several payday loans at exploitative interest rates, which she then must continue to pay off for the following year. Steve, however, gets an unlimited and unconditional amount and is able to pay off all his debts for nothing. The difference? Steve is actually a bank whose debts are legion and widespread: his bankruptcy could throw hundreds of thousands if not millions out of work. His lender of last resort is the Federal Reserve; the working mother must turn to a loan shark in the form of the neighborhood Pay-O-Matic.

What makes this disparity so tragic to Baradaran is the credit supplied by the payday loan industry also comes from the Fed, albeit in its capacity as a regulator rather than as a lender of last resort. It is bank money, after all, that is invested in payday loan companies, and which is then lent to consumers. The amount of credit banks can extend is determined by the central bank: Bank "reserve ratios"—the quantity of liabilities an institution must hold at the central bank, and against which it can lend—are a matter of public policy. (Turner recommends ratcheting up these requirements to unseen levels to limit the growth of bank money following a monetized stimulus.) But whereas the Fed determines the total quantity of available credit, it has no tools to control how that credit is spent or to whom it is lent thereafter. So onward rush the Fed's dollars—our dollars—toward whatever ends banks may pursue, and one destination is the massive payday lending industry. At most, all the Fed can do to allocate credit is salvage illiquid and potentially bankrupt businesses with emergency lending, a privilege refused to all but the "systemically important."

It is the conflation of these distinct functions—regulator and lender—that is at the heart of Baradaran's institutional and intellectual history of lending and banking legislation, and her seething moral scorn for the contemporary business of lending. She argues that there has been a historic "social contract" between the federal government and financiers, one betrayed by today's payday lending industry.

Through the first two centuries of the nation's history, American politicians suffused with suspicion of the influence of lenders insisted on keeping bank credit locked up locally. Federal bank charters were of supreme controversy until the Civil War, authorized only when state financing was needed for national defense. Interstate banking was illegal until the 1980s, the moment of victory for the business-internationalist tradition of the New Deal. "Unit banking, wherein a single bank operates in a single region, was the norm in U.S. banking for almost two centuries." She quotes a "coalition of community bankers" in the nineteenth century who "warned against national bank branching": "[Such branching would] create a brood of two hundred or three hundred great central banks," they argued, "with 10,000 to 15,000 branches" across the country that left "local taxes . . . evaded, no home distribution of profits, local progress retarded." Large centralized banks, they warned, would "skim the cream from the whole country" to their own benefit.

Despite forcing local investments, this diffuse and strictly watched business of lending nevertheless remained exclusive and out of reach for the growing, propertyless workforce. Loan sharks filled in the gap, and battling them became a cause of philanthropists and trade unionists alike. "Eventually," Baradaran writes, "alternative movements began to fill the void, and in time, the state blessed each." These included credit unions, savings and loans, building societies, a government postal bank, and Morris banks or industrial loan companies. "When local banking was the law of the land," she explains, "community control of credit was the utopia that promised to open credit channels to the disenfranchised."

The removal of regional and sectoral barriers compelled these institutions to compete for personal savings, or to be bought by those that did. The pricing of credit in a highly concentrated lending industry has resulted in a form of debt peonage for much of the American working class. "Prior to the mid-1970s, check cashing institutions existed in only a few urban areas," she explains, "but throughout the 1980s, these institutions rapidly expanded across the country. . . . There are more payday lender storefronts [today] than Starbucks and McDonald's *combined*." More than half the country is without access to $400 in cash. "In 2012," Baradaran writes, "the unbanked spent a total of $89 billion on financial transactions alone." These are workers who rely on payday loans in times of emergency, or those without enough savings for a bank account, and, therefore, without access to the electronic-currency economy.

"A typical two-week payday loan," Baradaran writes, carries an annual percentage rate . . . "of about 400 percent."

Providing access to decently priced credit and financial services would put that $89 billion in fees back into the pockets of American workers. Moreover, affordable credit would limit the usurious interest paid on the $40 billion in loans made annually by the payday lending industry. "A typical two-week payday loan," Baradaran writes, carries an annual percentage rate (APR) "of about 400 percent."

How the Other Half Banks, written in a commonsensical idiom, reveals impressive knowledge about the institutional structure of the private lending industry. By contrast, Turner's exegesis is burdened with financier jargon. Yet one wonders whether Baradaran's plaintive call for reform in down-market lending points away from her goal of providing equitable social insurance. If there should be a "right to credit," as she argues, should it be defended on the grounds that more than half the country does not have emergency access to $400 cash to pay doctors and landlords and mechanics? It is not obvious that borrowing and individual entrepreneurialism are essential human traits we should protect and cultivate through public policy. The examples of debt peonage and ad hoc and extortionate insurance schemes that inform the urgency of her proposal could well be mitigated outside the lending industry—for example, through public provision of health care, housing, and transportation.

Baradaran's opinion is that regulating fringe-banking will not solve the problem of loan-sharking, as the gargantuan demand for cheap credit among the working class ensures a market for predatory practices. Her proposed restoration of the "social contract" is to, instead, renew the American postal bank, which existed and was widely used between the 1870s and 1950s. As a low-cost rival to a predatory business, postal banking would also revive the strongest tradition of New Deal "yard-sticking"—providing a public baseline price from which private industry would have to compete.

There is also a macroeconomic argument for a postal bank, one Baradaran mentions only in passing. It is a policy conspicuously absent from Turner's analysis of the debt overhang currently constraining economic activity. Repurposing an increasingly beleaguered source of public employment would do more than save jobs; it would socialize a chunk of the financial services industry, allowing the government to regulate the pace of consumption through direct access to borrowers and to greatly stabilize the business cycle as it is has never done before. Rather than Turner's one-off injection of stimulus spending to consumers, a state bank for workers could provide a continuous supply of low-cost credit to those most in need of purchasing power—not as a form of social insurance, but as a tool of national economic planning. It could also invest their savings with greater foresight than the market seems capable of doing.

In 1980, economist Hyman Minsky wrote an essay with a title like Turner's and a proposition like Baradaran's. Published in *Challenge: The Magazine of Economic Affairs*, his essay "The Federal Reserve: Between a Rock and a Hard Place" argued, "The Federal Reserve is locked into a dismal cycle whereby what it does to halt inflation can trigger debt-deflation, and what it does to prevent that debt-deflation increases inflation." Minsky's solution to this dilemma, however, was much more thoroughgoing than a monetized stimulus. He understood that if a capitalist economy that priced output over the cost of labor was to overcome the inflationary pressures of the welfare state, "the private market power of giant corporations must be 'broken.'" Furthermore, the sorts of large-scale infrastructural investments needed in the long term would not be made in an economy where investment was governed by firms trading securities in the short term. "The crisis in financial markets," Minsky wrote, "makes it clear that private business cannot finance capital-intensive industries

. . . Public ownership and operation of such industries is needed; paradoxically, perhaps, private ownership capitalism does not work well for industries of extreme capital intensity." We see this in the mirrored condominiums skewering our cities, grotesque excrescences of misallocated private capital. Postal banking might just be one inroad for a necessary expansion of public ownership of productive capital. Progressive policy makers would do well to think of more strategies like it; with any luck, the euthanasia of the rentier may still be at hand.

Author Biography

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Life beyond Liberalism

The Future We Want: Radical Ideas for the New Century
By Sarah Leonard and Bhaskar Sunkara
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In a poignant essay from Thatcherism's dawn—and newly tender again today—Stuart Hall wrote, "Progressivism can never provide the lure of socialist ideas." Once brushed by socialism, "People do still go on living. But their imaginations have been fired by the possibility of an alternative way of making life with other people." Squeezed between Far-Right demagogy and mostly bloodless neoliberalism, there is precious little space in 2016 for imagination. The excitement for it is what is so refreshing about *The Future We Want: Radical Ideas for the New Century*, edited by *The Nation*'s Sarah Leonard and *Jacobin* founder Bhaskar Sunkara. Their collection sets out to answer the question rising to the surface since 2011, perhaps most audibly in Bernie Sanders' campaign: What is to be done? As Leonard writes in her introduction, "It is time for ideas big enough to be worthy of the global discontent that put them on the agenda." What follows is a nudge at the left to expand its familiar slate of bread-and-butter demands—for wage hikes and paid family leave, for instance—to include some just outside the realm of immediate possibility.

Several essays call for a move away from the rights-based approach that has informed everything from the civil rights movement to the fight for gay marriage, both acknowledging the power of its victories and stating resolutely that they are not nearly enough. In other words, contributors are mapping out what black liberation looks like in the age of Obama, what queer liberation looks like after equal marriage, and environmental justice after the Paris Climate Agreement. The gains of the mildly revivified liberalism of the last decade are tallied, recognized, and placed firmly in the rear-view mirror.

Contributor Kate Redburn, for example, traces the migration of people and resources in the gay rights movement toward top-down legal strategies over the 1990s and 2000s, and away from scrappier grassroots fights for an economic justice that might better lift up immigrant and trans communities, and others whose legal precarity can leave them out of the victories enjoyed by cisgender (those identifying with their birth gender) citizens. Redburn notes that more than 40 percent of respondents to a survey of trans Latina immigrant women found securing safe and affordable housing "very difficult," and, more than that, reported getting no support from local authorities. Another study she cites finds that African-American gay