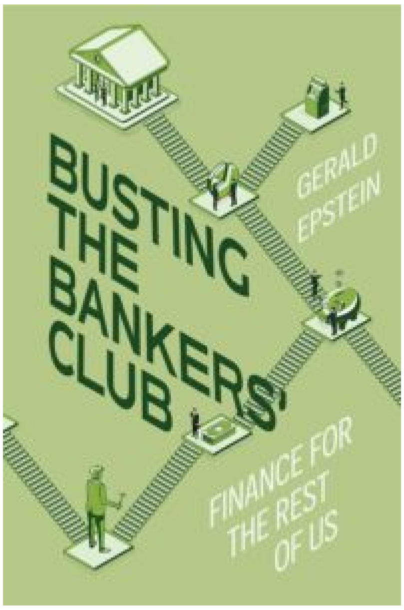
A Growing Number Of Economists Are Joining The Fight To Rein In The Big Banks



02-13-2024 ~ *Big banks have captured the financial regulatory system and are driving inequality. We need to bust their club.*

The fortunes of the five richest men in the world have "shot up by 114 percent since 2020," according to a January 2024 Oxfam report on global inequality, while "nearly five billion people have been made poorer."

This most recent gross increase in wealth and income inequality builds on global trends that took hold in the early 1980s, with the decades-long increase in inequality being particularly large in the United States compared to other developed nations. Wealth inequality is typically higher than income inequality, which in turn feeds higher future income inequality. Indeed, income inequality in the U.S. continues to rise, according to the latest report from the Congressional Budget Office, utilizing data through 2020.

At the same time, and quite unsurprisingly, the largest U.S. banks made record profits in 2023, with JPMorgan Chase reporting $49.6 billion in net income for the year. In the meantime, the Federal Reserve, which world-renowned progressive economist Gerald Epstein calls the "chairman" of the "Bankers' Club" in his new and path-breaking book *Busting the Banker's Club: Finance for the Rest of Us,* has announced that it will keep its benchmark interest rate unchanged following its January 30-31 meeting. The federal fund rates of 5.25-5.5 percent, the highest in 22 years, do not affect Wall Street, the wealthy or powerful corporations, who simply push prices higher to protect profits. Those most adversely affected by the Fed's current monetary policy are low-wage workers and the poor.

But what exactly is the Bankers' Club, how does it maintain such firm control of the U.S economy at the behest of the rich and powerful, and who are the "Club Busters" that Epstein talks about in his book? In this exclusive interview for *Truthout*, which builds on our previous conversation about how "SEC's Approval of Bitcoin Markets May Set the Stage for Financial Disaster," Epstein addresses these issues and contends that we can win the fight against plutocracy.

C.J. Polychroniou: Jerry, in your new book titled Busting the Bankers' Club: Finance for the Rest of Us*, which is highly critical of the current banking and financial system, you refer to a Bankers' Club. Who are its members, what do they do, and how do their actions impact the U.S. economy and society?*

Gerald Epstein: The Bankers' Club is the powerful group of political allies that the finance industry cultivates in order to sustain and augment its economic and political power. Why does the finance industry need political allies? Because, as poll after poll shows, Americans really dislike banks and bankers. Another way to gauge popular sentiment about bankers is to survey Hollywood movies about banks. Every year I ask my students in my "Finance and Society" class to come up with a popular movie that paints a favorable portrait of the finance industry. The best they have come up with is *It's a Wonderful Life*, and that is from 1946! Donald Trump in 2015-2016 ran a populist campaign railing against the banks and Hilary Clinton's connections to them. Of course, as soon as Trump was elected, he became a loyal member of the Bankers' Club.

Who's in the Bankers' Club? Well, first are the usual suspects: the banks and the politicians they pay off to support them — to pass bank-friendly legislation and appoint finance friendly regulators. But there are other members who might be more surprising. Take, for instance, the Federal Reserve. I call the Federal Reserve the chairman of the club: The Fed sees the world through *finance-colored glasses*. With its monetary policy tools, its regulations and its lender-of-last-resort actions, the Fed often puts the interests of finance ahead of those of society at large. We saw this with the financial bailouts after the global financial crisis of 2008; and we have seen that again in its recent high interest rate policies.

Other key members of the club include many financial regulatory agencies and lawyers that work for them or for the banks. Then, there's the CEOs of non-financial corporations who often side with the banks. This differs from the Great Depression, when many turned against the banks. And there are all too many in my own profession — economists who fashion theories based on flimsy assumptions that rationalize financial deregulation while claiming that free markets are the best of all possible worlds.

This club, at the cost of millions of dollars, dismantled the New Deal financial regulations that were the foundation of a relatively stable and efficient (though highly discriminatory) post-World War II financial system (some called it "boring banking"). This deregulation ushered in our current system of "roaring banking."

Some argue that these financial titans are so big and powerful because they provide such valuable services to our economy — that these bankers are, in other words, essential workers. But *Busting the Bankers' Club* shows that these megabanks, private equity firms, hedge funds, etc. are actually — on balance — a net drain on our economy. This is because of their misallocation of human and financial resources, the frequent financial crises they cause, and the outsized profits and incomes they extract from society. (By the way, this analysis, and a lot of the underlying research in the book, comes from my joint research with excellent current and former graduate students from the University of Massachusetts Amherst economics department.)

In addition, "roaring banking" is a major engine of inequality in our society. The industry generates massive wealth for the CEOs, major investors and top management, while engaging in actions, such as those that led to the global financial crisis, that can strip Americans of their wealth.

You identify the Federal Reserve as the chairman of the Banker's Club. What does the Federal Reserve actually do that would even make it a member of the Bankers' Club?

The Federal Reserve has three major areas of action: setting monetary policy, including interest rates; regulating and supervising banks, including the megabanks such as Bank of America, Citigroup and JPMorgan Chase; and the so-called lender of last resort function, in other words: bailouts. All of these activities have a big impact on the banks and other financial institutions as well as on workers and the rest of us. Historically, for structural and institutional reasons, the Federal Reserve implements these policies primarily to support the banks and financial markets, rather than workers and communities.

Take monetary policy. Because of political struggles by unions, pro-worker groups and legislators, the Federal Reserve has a dual mandate: high employment and stable prices. But, in practice, the Fed usually places primary emphasis on fighting inflation, even if that results in a high level of unemployment. My research with my graduate student, Aaron Medlin, shows that this policy has the effect of protecting the real wealth of the richest 1 percent of the population at the expense of the bottom 50 percent. The problem is that the Fed typically raises interest rates, which often increases unemployment and hurts workers and the poor. The wealthy, by contrast, get both higher returns on their wealth and lower inflation, which bolsters the real after-inflation value of their wealth holdings.

In terms of regulatory policy and bailouts, the Fed's policies are typically all in in terms of protecting the banks: They have a tendency toward lax regulatory judgements and enforcement, and when banks get in trouble due to excessively risky actions by the bankers, the Fed usually bails out both the major banks and the bankers.

All these policies win the bankers as Federal Reserve allies, who often lobby Congress and the president to keep their hands off the Fed and protect Federal Reserve "independence."

How does this club sustain and reproduce the hegemonic role of finance in the U.S. and global economy, and what holds it together?

A nexus of payoffs — financial institutions give campaign contributions to politicians and offer them and their staff lucrative jobs when they leave office; financial firms hire economic consultants and sometimes give money to friendly economics programs and departments. The banks create a revolving door of well-paying jobs for Federal Reserve and regulatory officials and their staff who shuttle between private and public employment.

How is all this financed? Through what I call "the circuit of wealth grabbing." To some extent this is a self-sustaining process where the Bankers' Club is paid off from the profits financial institutions make from deregulation, favorable accounting and legal rules. Undergirding much of this is what I call the "Money

Spigot" — this includes government and Federal Reserve bailouts; Federal Reserve liquidity provision and friendly monetary policy that enhances financial profits and sustains the real value of financial assets; and finance friendly tax laws that enhance profits and wealth. Further underlying this circuit — something that Christine Desan has written brilliantly about — is the government sanctioned, private bank-based monetary system that allows private banks to create money. To reform banking we must reduce the power of the bankers' club and to do that we must, among other things, plug up this money spigot.

Modern capitalism has always had enthusiasts, opponents and reformers. Thus, it would be only natural that the current financial and banking system faces opposition by a host of organizations and people which you label the Club Busters. Who are the Club Busters, and what is this fight all about?

Importantly, my book is not just about the Bankers' Club and the problems it creates. My book is also about the "Club Busters" — the individuals, organizations and groups that for years have been fighting for a better financial system. These include lawyers and economists who fought against race-based mortgage exclusion ("redlining") and predatory lending in the 1960s, '70s and '80s; consumer advocates, often working with Ralph Nader-sponsored organizations in the same period to fight consumer exploitation by banks, among other shady practices; law professors and radical economists who developed critiques of neoliberal justifications for financial deregulation and shareholder maximization as the only appropriate goal for corporations; labor unions who fought for pension rights for workers and a more worker-friendly Federal Reserve policy; and all of these groups that came together in the fight for financial reform after the great financial crisis of 2008-2009, first under the auspices of the Americans for Financial Reform and then joined by Better Markets; and, importantly, reform-minded legislators, such as Senators Elizabeth Warren, Sherrod Brown, Jeff Merkley, Bernie Sanders and Rep. Alexandria Ocasio-Cortez. The Club Busters have been joined by those working in many parts of the country to create a system of public banks that can serve society's needs and provide socially productive alternatives to the "roaring banks."

While you are an academic economist yourself, you admit that economics as a profession not only hasn't done much to solve our economic problems but "sometimes makes things worse." Should the public then pay attention to what economists say, or is it that what they say is mostly for the ears of the privileged *classes?*

In *Busting the Bankers' Club* I discuss both "bankers' club economics" as well as the challenges to bankers' club economics by heterodox economists and other critics who also are among the "club busters." So, yes, the mainstream of the economics profession, especially in its neoliberal manifestation, has helped to prop up the power of finance by providing facile justifications for financial deregulation and free markets, and often exaggerating the social costs of financial regulations. Bankers' Club economics has had its most powerful expression in the works of Milton Friedman and his colleagues at the University of Chicago, but its purveyors are not restricted to the midwest. On the other side, drawing on a long tradition of Marxist, Radical, Institutionalist, Keynesian and, more recently, feminist and stratification economics ideas, more economists and, importantly, economic institutions both inside and outside academia, are presenting both critiques of "bankers' club economics," but equally if not more importantly, alternative theory and policies which can inform alternative institutions and practices that are more egalitarian, efficient and effective. These institutions include academic departments like my own at the University of Massachusetts, the New School for Social Research, University of Missouri – Kansas City, Colorado State University and American University, among other places, as well as research institutes and think tanks, such as the Political Economy Research Institute, the Levy Institute, the Roosevelt Institute, Center for Economic and Policy Research, and the Economic Policy Institute.

So, in short, there is plenty of blame to heap on economists, but there are also more and more effective "club busting" economists and economic institutions as well.

Money drives politics. Given this fact, can the fight against the Bankers' Club be won?

Yes. Money drives politics and money is the glue that holds together the Bankers Club. In order to defeat the Bankers' Club and the megabanks, money flowing to the banks and from them to their allies will have to be greatly reduced. At one level, this will be achieved by financial regulations, tax policies and other policies that will limit the profits of the big banks. A number of financial reforms I propose in the book will have this effect. These include, for example regulations to:

1. Downsize and simplify the megabanks — for example, implement a modern Glass-Steagall Act.

2. Greatly limit banks' financial dependence on short-term liquidity for financing long-term or illiquid investments.

3. Leave no financial institution or market unregulated — including hedge funds, derivatives and private equity.

4. Implement a precautionary principle with respect to financial innovation, which would limit the widespread introduction of new financial products until they can be shown to be safe and effective: For example, keep crypto out of the core of our banking and financial system and, if anything, out on the fringes.

But implementing these policies will probably not be feasible without limiting the role of money in politics more generally. In other words, we will need both more democratic finance and genuine democratic reform in the larger sense.

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