Financial FAQs

Who is Elizabeth Warren?

Now that Elizabeth Warren, Harvard Law Professor (Contracts) and creator of the barely born Bureau of Consumer Financial Protection, is running for Ted Kennedy's former Senate seat, she should receive the attention she deserves. Professor Warren is perhaps the most eloquent spokesperson for rebalancing the 30 years of policies that tilted income and wealth from the middle class to the investor class (i.e, to producers/investors, rather than consumers) of our economy.

A recent New York Times' editorial said it best: "Ms. Warren talks about the nation's growing income inequality in a way that channels the force of the Occupy Wall Street movement but makes it palatable and understandable to a far wider swath of voters. She is provocative and assertive in her critique of corporate power and the well-paid lobbyists who protect it in Washington, and eloquent in her defense of an eroding middle class."

But really, even the New York Times misses the point. Not only has income inequality destabilized our financial system, but the economy as a whole. Don't take my word for it. Krugman, Robert Reich, and many others have pointed out the results of too much inequality that puts us near the bottom of developed countries. We are 97th of the 136 countries ranked—next to Cameroon and a handful of other African countries, according to the CIA Factbook.

The more frequent financial destabilizations of late are but a symptom, while the redistribution of wealth itself is the core illness that has in fact directly lowered economic growth by reducing overall aggregate demand—which is the willingness of consumers, investors and government to spend or invest.

In other words, the supply-side theories implemented by Milton Friedman, Ronald Reagan, et. al., have taken away the wealth of those who create most demand—middle class wage and salary earners. Their incomes have become stagnant, and may result in a permanent underclass, if Elizabeth Warren doesn't have her way.

The remedies are available. Bring back a more progressive tax structure that existed even as recently as the Clinton era. And re-regulate the banking and shadow banking systems as mandated by Dodd-Frank—specifically implement the so-called Volcker Rule that won't allow banks to trade for their own profit—as well as other measures that reduce the size of the too-big-to-fail financial sector. The bloated financial sector was the real cause of the Great Recession, and reducing it will return resources and capital taken away from the productive sectors of our economy.

Professor Warren fought this battle when creating the Consumer Financial Protection Bureau, which is within the U.S. Treasury. Her message was simple in creating the Bureau: the consumer "market" for financial products does not operate like a proper market because leading firms (bigger banks and also nonbanks, like some payday lenders) have figured out how to make a great deal of money by confusing their customers.

4141 State St., #E13 Santa Barbara, CA 93110
Editor@populareconomics.com
http://populareconomicsweekly.blogspot.com

"If someone attempted to sell boxed cereal in the same fashion that many financial products are now sold, that person would be drummed out of the cereal business. The norms of that sector (and many other nonfinancial sectors in the United States) would not stand for this degree of deception and malpractice", said one critic of the successful Republican campaign against her nomination as first Bureau Director.

Transparency is an issue with all financial markets, not just mortgage and payday loans, of course. The multi-trillion dollar derivatives' business is controlled by a self-appointed consortium of the major banks. And they have resisted providing a record of their transactions to a central clearing house, a provision of the Dodd-Frank bill that is still being developed.

So let us listen to Elizabeth Warren for Massachusetts Senator in her campaign to reoccupy Ted Kennedy's Senate seat. The principles she espouses to restore the middle class will actually restore economic growth as well, if carried out.

4141 State St., #E13 Santa Barbara, CA 93110
Editor@populareconomics.com
http://populareconomicsweekly.blogspot.com