Financial Institutions and Economic Security

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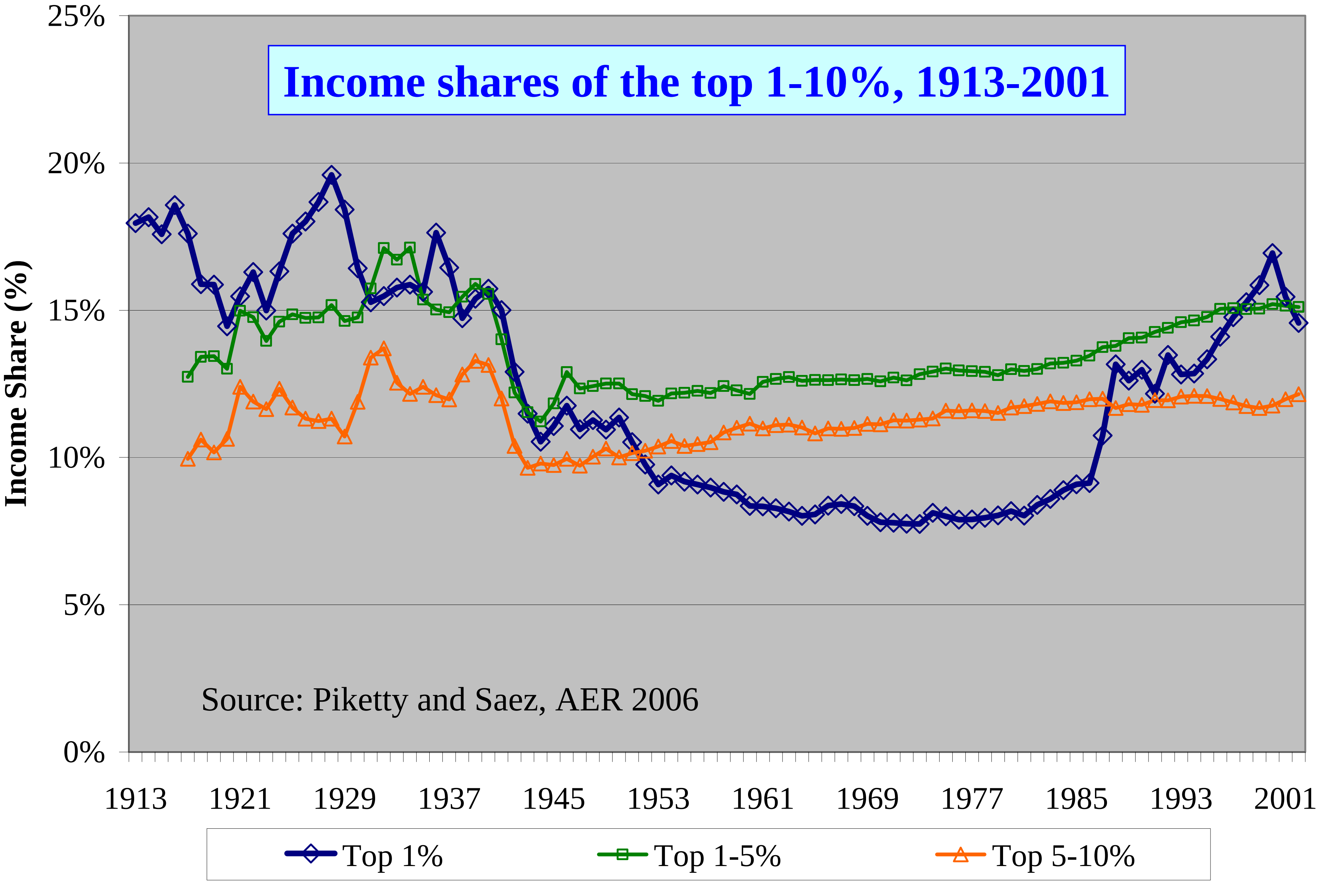
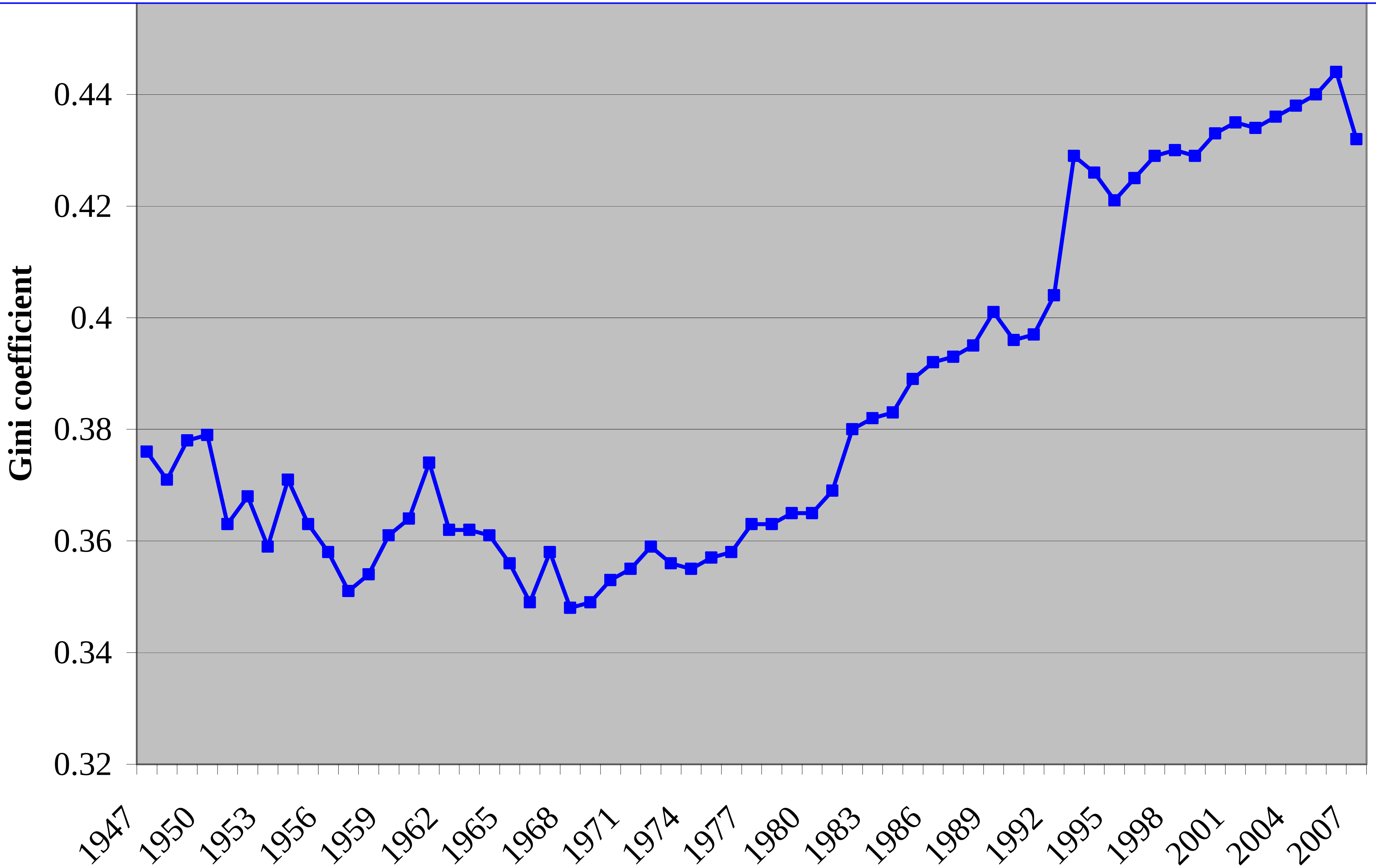
The triple-whammy of economic insecurity

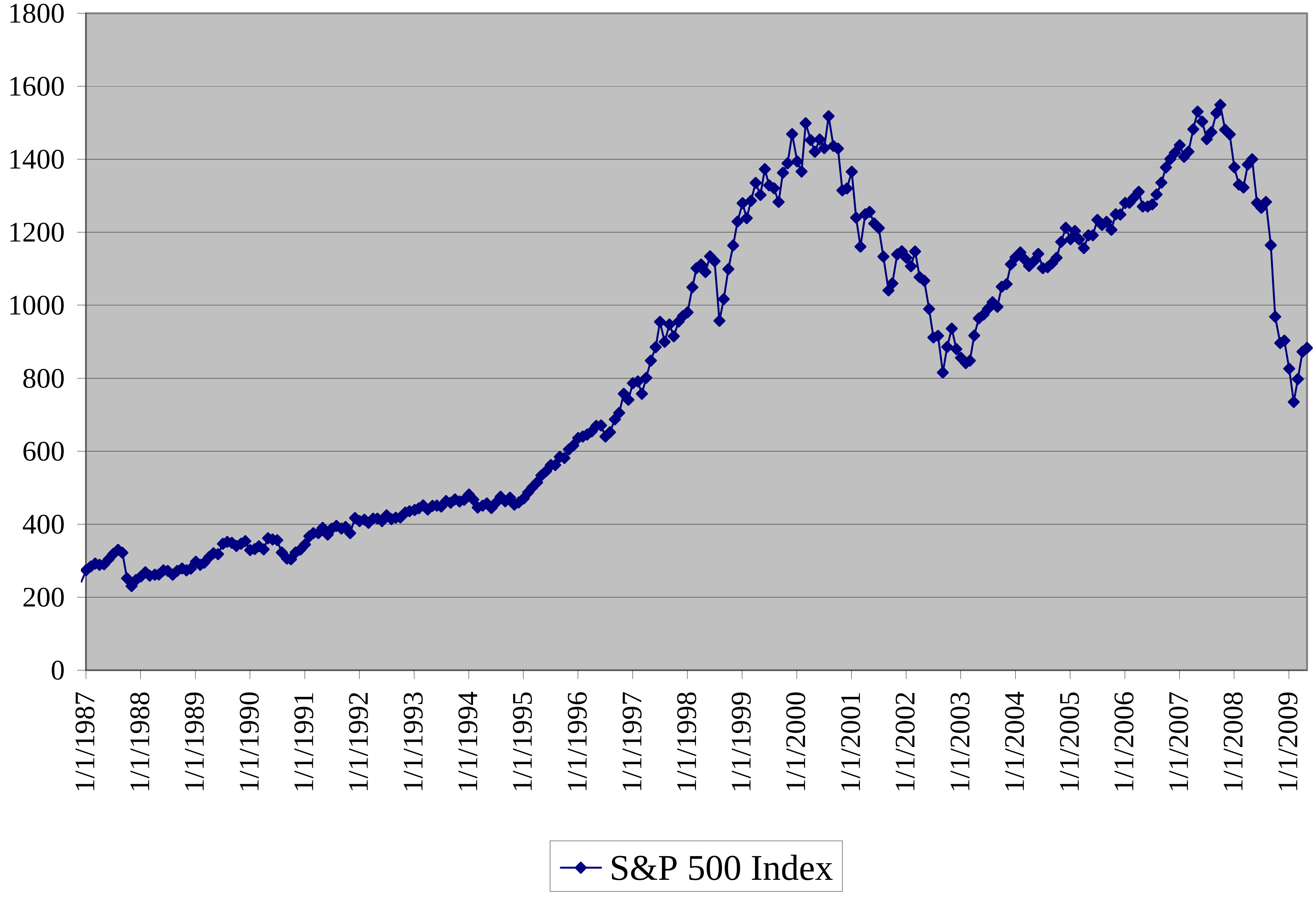
The financialization of the US economy



Growing inequality since the late 1970s
The Gini coefficient



A volatile stock market



A volatile stock market

Table 5: Average annual US corporate stock and bond yields (%), 1960–2007

Average annual percent change

	1960–1969	1970–1979	1980–1989	1990–1999	2000–2007
Real stock yield	**6.63**	**-1.66**	**11.67**	**15.01**	**0.96**
Price yield	5.80	1.35	12.91	15.54	2.09
Dividend yield	3.19	4.08	4.32	2.47	1.64
Change in CPI	2.36	7.09	5.55	3.00	2.78
Real bond yield	**2.65**	**1.14**	**5.79**	**4.72**	**3.34**

NOTE: Stock yields are for Standard and Poor's composite index of 500 US corporate stocks (about 75% of which are NYSE). Bond yields are for Moody's Aaa-rated U.S. corporate bonds.

SOURCE: Updated from William Lazonick and Mary O'Sullivan, "Maximizing Shareholder Value: A New Ideology for Corporate Governance." Economy and Society, 29, 1, 2000: 27, using US Congress, Economic Report of the President, Government Printing Office, 2009, Tables B-62, B-73, B-95, B-96.

Three forms of economic insecurity

Three propositions:

1. **Employment insecurity: associated with maximizing shareholder value – a managerial ideology that enables top corporate executives to downsize their labor forces while distributing corporate revenues to shareholders, themselves included**

2. **Retirement insecurity: associated with betting on shares traded on the stock market and other volatile financial securities**

3. **Housing insecurity: associated with the high-rollers of Wall Street gambling on fabricated financial instruments that derive from the fact that masses of people cannot afford to own their homes**

The conference on Financial Institutions and Economic Security asks:

How can financial institutions be reformed to support rather than undermine economic security?

In my view this question is not being asked, at least in the United States.

To ask this question requires an understanding of the sources of economic insecurity and an analysis of how an advanced economy can achieve stable and equitable growth, or what I call "sustainable prosperity".

It requires policy-makers to contemplate the banning of certain types of financial activity as simply being too hazardous to our wealth.