

Fourth Lecture

Identity Politics

Who Is Running Finance, How and Why?

Which of the following statements do you agree with: (1) we live in “people’s capitalism”, (2) real investment is financed mostly from the issuance of bonds and stocks, (3) the financial sector is an “efficient” gatherer of social funds, (4) the central bank regulates the financial system, and (5) financial information is a scarce resource?

Overview

- Identity politics – who are the investors?
- Actors and players
- Why the US?

Concepts

- Macro and micro – the fallacy of composition
- Aggregates: NIPA and FOF
- Stocks and flows
- Sectors: households, non-financial business, financial institutions, government, ROW
- Asset types: debt and equity
- Financial explosion: double counting or euphoria?
- Debt: whose obligations are these?
- Ownership: who holds the debt and equity?

Households

- Bottom line: people, flesh and blood
- “People’s Capitalism”?
- Some history: wealth for use, wealth as capital
- Capitalist class, the power belt, and the rest

Corporations

- Conventional wisdom and economies of scale
- Size – corporations vs. establishments
- Who needs financing and what for?
- Buybacks and Mergers & Acquisitions
- Why build if you can buy?
- The corporate financing cycle: growth and stagnation

Financial sector

- Lubricating the machine: raising the funds
- What price intermediation?

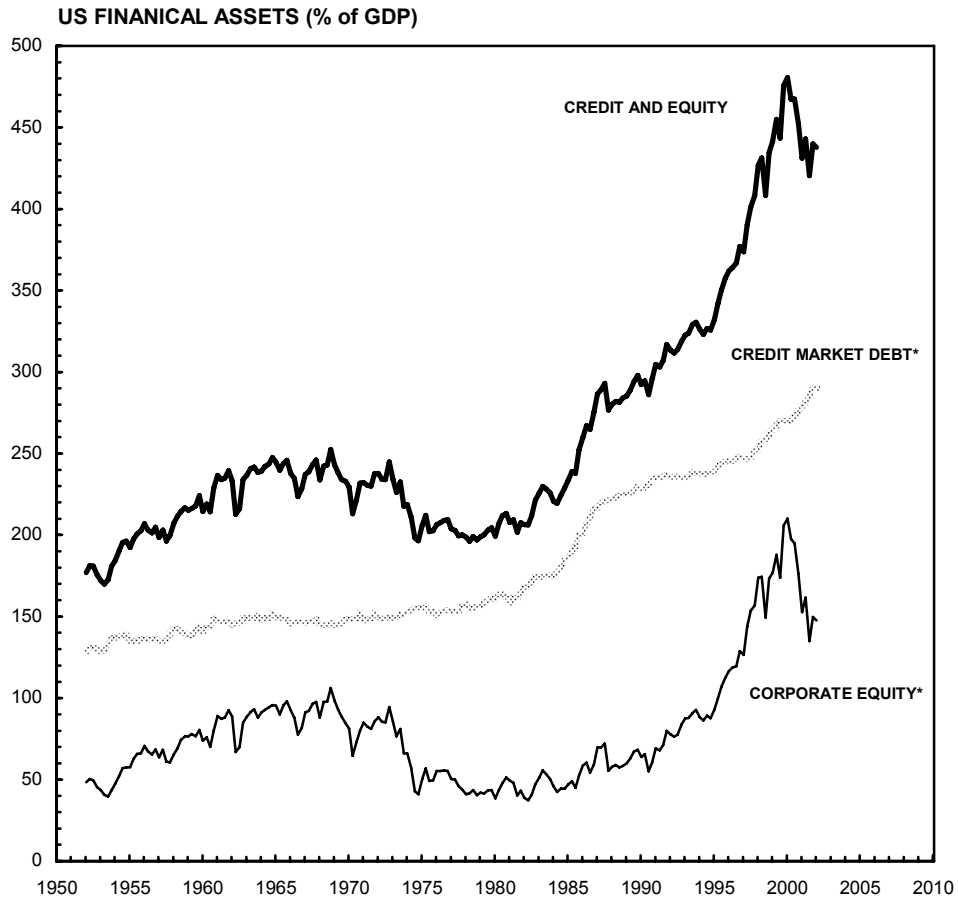
Government

- Regulation
- Monetary stability, institutional rules
- Who needs a central bank and why?
- Public vs. capitalists
- Capitalist “fractions”?
- Do central bank *really* regulate the system?

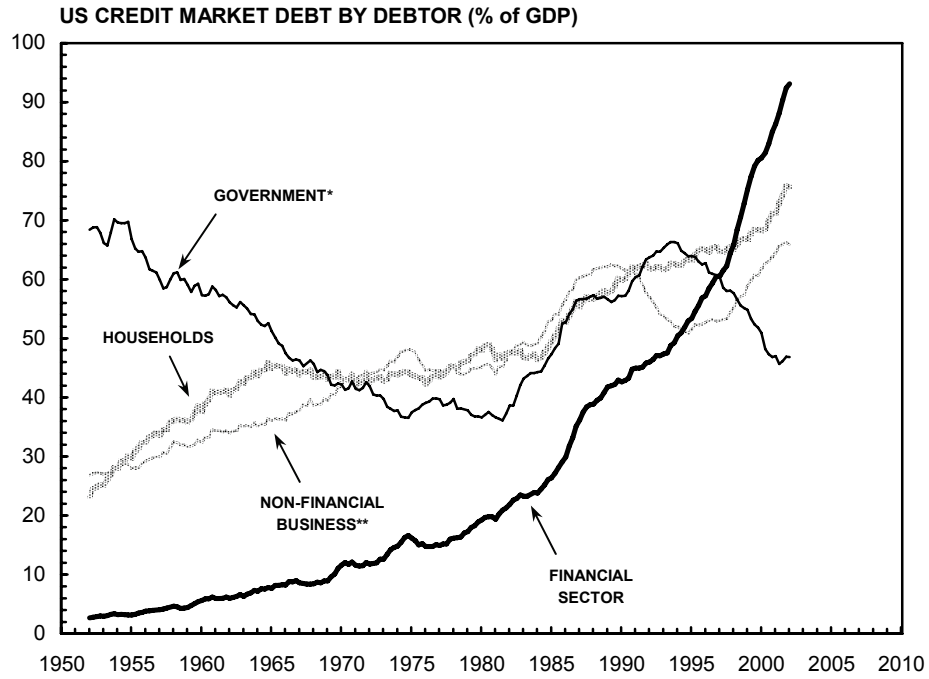
Information

- **Foresight and insight**
- **Who needs “analysts” and why?**
- **Irrationality, concentration and herds**
- **Right on the small turns, wrong on the big ones**
- **Why all the fuss?**
- **Greed and fear**
- **Propaganda on behalf of capitalism**

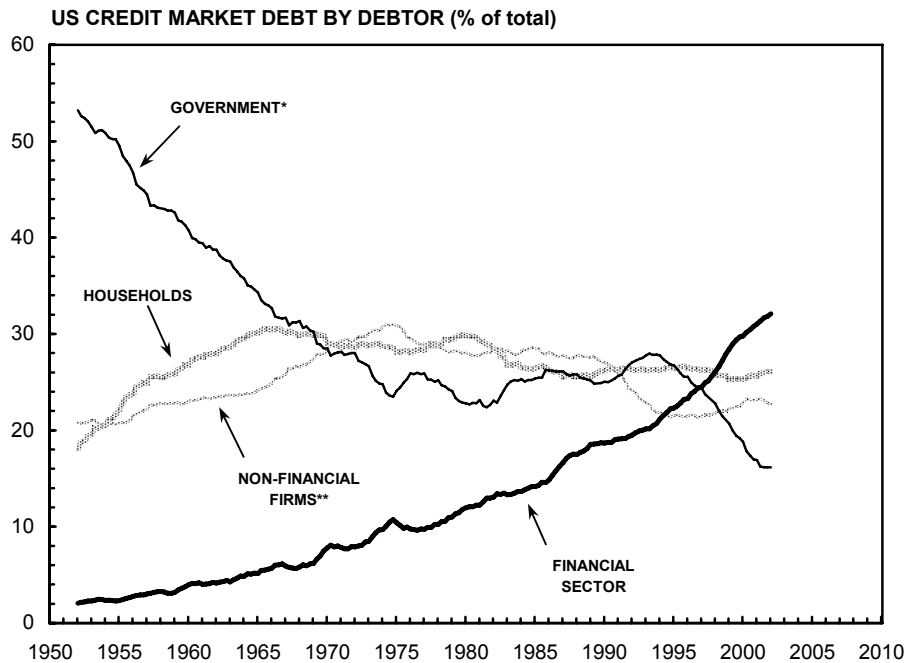
Market Capitalization and Domestic Credit	1996, \$ bn	% of Total
United States	11,314,785	51.321
Japan	3,094,985	14.038
United Kingdom	1,741,749	7.900
Germany	674,224	3.058
France	592,693	2.688
Canada	486,730	2.208
Hong Kong, China	449,624	2.039
Switzerland	402,640	1.826
Netherlands	379,209	1.720
Australia	312,336	1.417
Italy	259,307	1.176
Sweden	247,387	1.122
Spain	243,392	1.104
South Africa	241,663	1.096
Brazil	217,242	0.985
Korea, Rep.	139,134	0.631
India	122,783	0.557
Belgium	120,239	0.545
China	114,554	0.520
Mexico	106,640	0.484
Thailand	100,011	0.454
Indonesia	91,139	0.413
Philippines	80,704	0.366
Denmark	71,790	0.326
Chile	65,983	0.299
Finland	63,157	0.286
Norway	57,515	0.261
Argentina	44,755	0.203
New Zealand	38,347	0.174
Austria	34,249	0.155
Turkey	30,081	0.136
Portugal	24,764	0.112
Greece	24,249	0.110
Czech Republic	18,120	0.082
Colombia	17,159	0.078
Peru	12,298	0.056
Pakistan	10,671	0.048
Total	22,047,027	100.000



*Equity FFUNDS code: 893064105, Debt FFUNDS code: 894104005
 SOURCE: Federal Reserve Board; US Bureau of the Census; DRI.

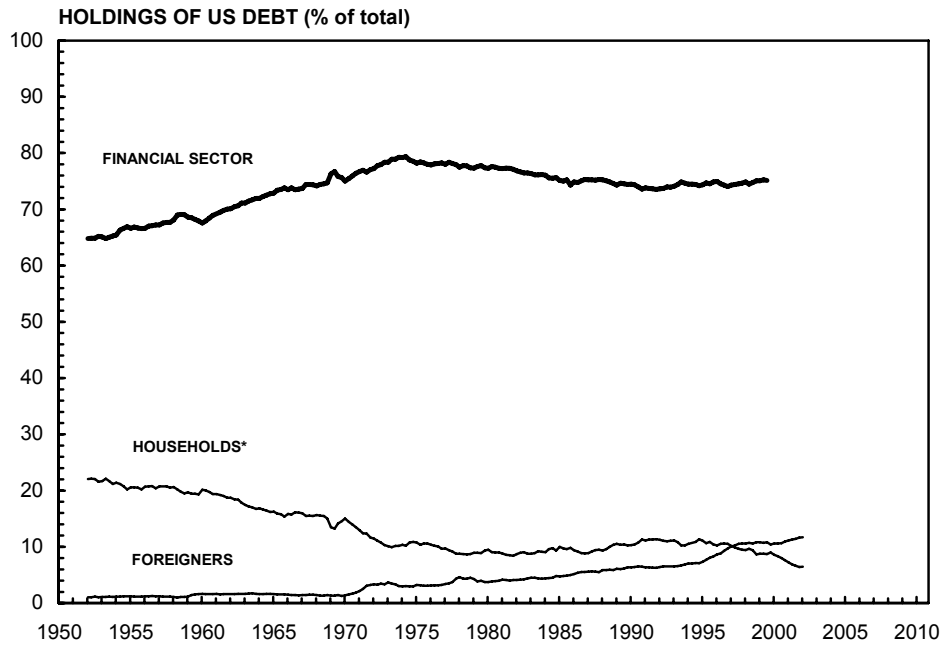


* Federal, state and local.
 ** Corporations and un-incorporated firms
 SOURCE: Federal Reserve Board, *Flow of Funds*, Table L1; DRI

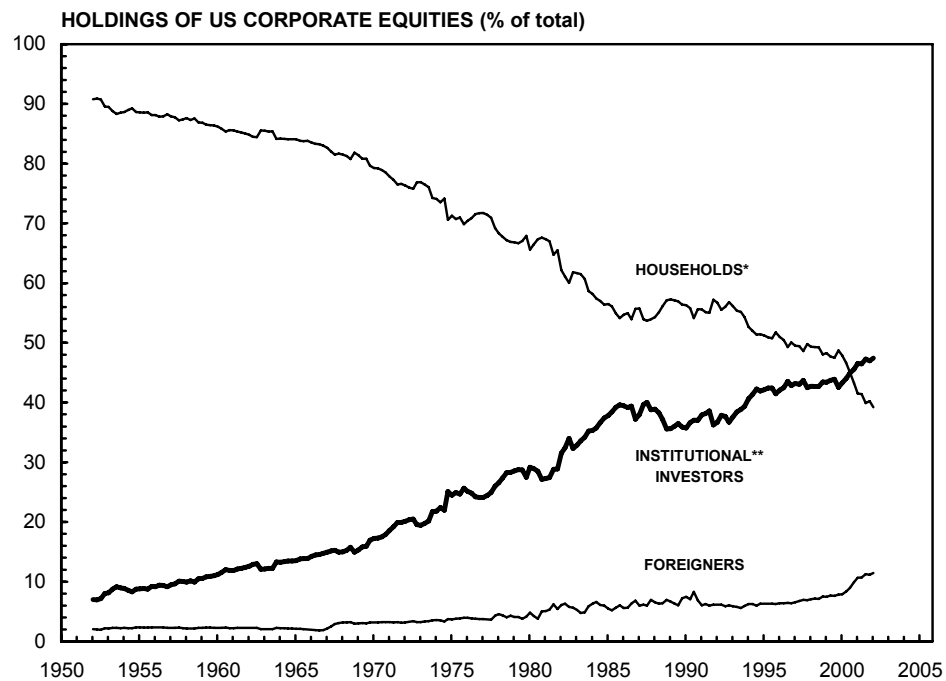


* Federal, state and local.
 ** Corporations and un-incorporated firms
 SOURCE: Federal Reserve, *Board Flow of Funds*, Table L1; DRI

fof-obligations.xls



* Personal and estate accounts.
 SOURCE: Federal Reserve Board *Flow of Funds*; DRI



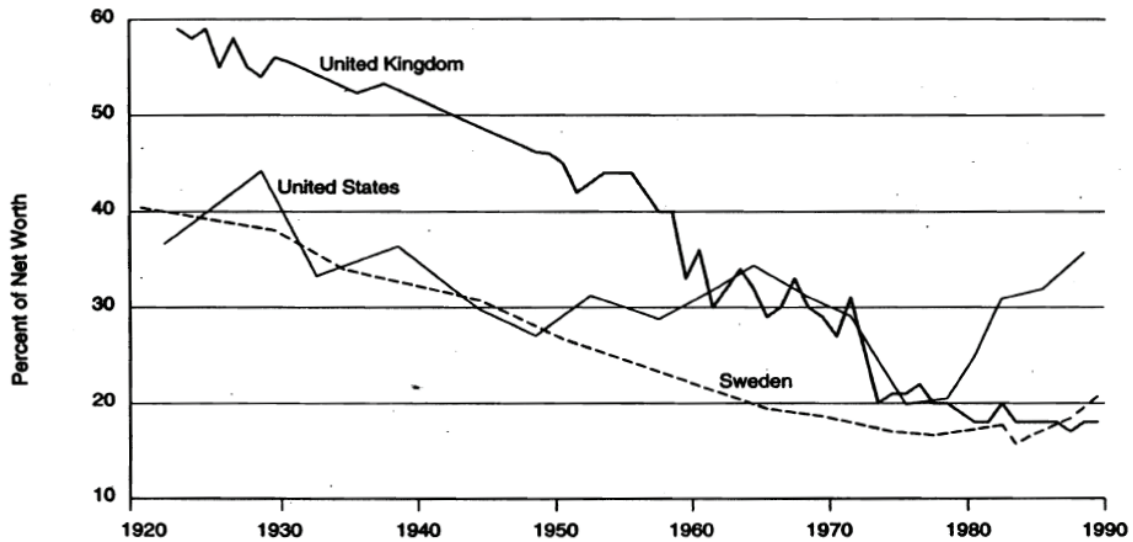
* Personal and estate accounts.
 ** Insurance companies, pension & retirement funds, mutual funds, brokers and dealers.
 SOURCE: Federal Reserve Board *Flow of Funds*; DRI

Fof-holdings.xls; fof1.xls

Asset Type	Top 1.0%	Next 9.0%	Bottom 90.0%	All	Share of Top 10					
					1983	1989	1992	1995	1998	2001
A. Investment assets										
Stocks and mutual funds	44.1	40.4	15.5	100.0	90.4	86.0	86.3	88.4	85.1	84.5
Financial securities	58.0	30.6	11.3	100.0	82.9	87.1	91.3	89.8	84.1	88.7
Trusts	46.3	40.4	13.3	100.0	95.4	87.9	87.9	88.5	90.8	86.7
Business equity	57.3	32.3	10.4	100.0	89.9	89.8	91.0	91.7	91.7	89.6
Non-home real estate	34.9	43.6	21.5	100.0	76.3	79.6	83.0	78.7	74.9	78.5
Total for group	47.8	37.7	14.5	100.0	85.6	85.7	87.6	87.5	86.2	85.5
Stocks, directly or indirectly owned ^a	33.5	43.4	23.1	100.0	89.7	80.8	78.7	81.9	78.7	76.9
B. Housing, liquid assets, pension assets, and debt										
Principal residence	8.9	28.0	63.0	100.0	34.2	34.0	36.0	31.7	35.2	37.0
Deposits ^b	21.7	35.5	42.8	100.0	52.9	61.5	59.7	62.3	51.0	57.2
Life insurance	12.5	33.5	54.0	100.0	33.6	44.6	45.0	44.9	52.8	46.0
Pension accounts ^c	13.3	47.0	39.6	100.0	67.5	50.5	62.3	62.3	59.8	60.4
Total for group	11.9	34.0	54.1	100.0	41.0	43.9	45.2	42.5	44.0	45.9
Total debt	5.8	20.1	74.1	100.0	31.8	29.4	37.5	28.3	27.0	25.9
Source: own computations from the 1983, 1989, 1992, 1995, 1998, and 2001 Surveys of Consumer Finances. Households are classified into wealth class according to their net worth. Brackets for 2001 are:										
Top one percent: Net worth of \$5,838,000 or more.										
Next 9 percent: Net worth between \$714,500 and \$5,838,000.										
Bottom 90 Percent: Net worth less than \$714,500.										
a. Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts										
b. Includes demand deposits, savings deposits, time deposits, money market funds, and certificates of deposit.										
c. IRAs, Keogh plans, 401(k) plans, the accumulated value of defined contribution pension plans, and other retirement accounts.										

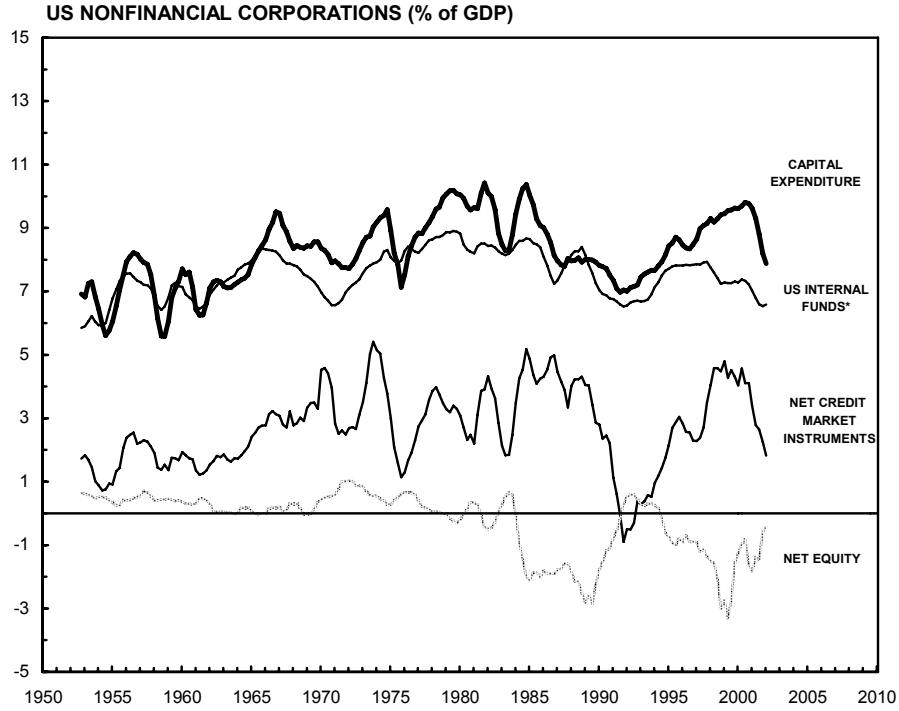
SOURCE: Wolff, Edward N. 2004. Changes in Household Wealth in the 1980s and 1990s in the U.S. Working Paper No. 407, The Levy Economics Institute of Bard College, p. 34.

FIGURE 5-1
SHARE OF MARKETABLE NET WORTH HELD BY TOP 1 PERCENT OF WEALTH HOLDERS:
SWEDEN, UNITED KINGDOM, UNITED STATES, 1922-1990.

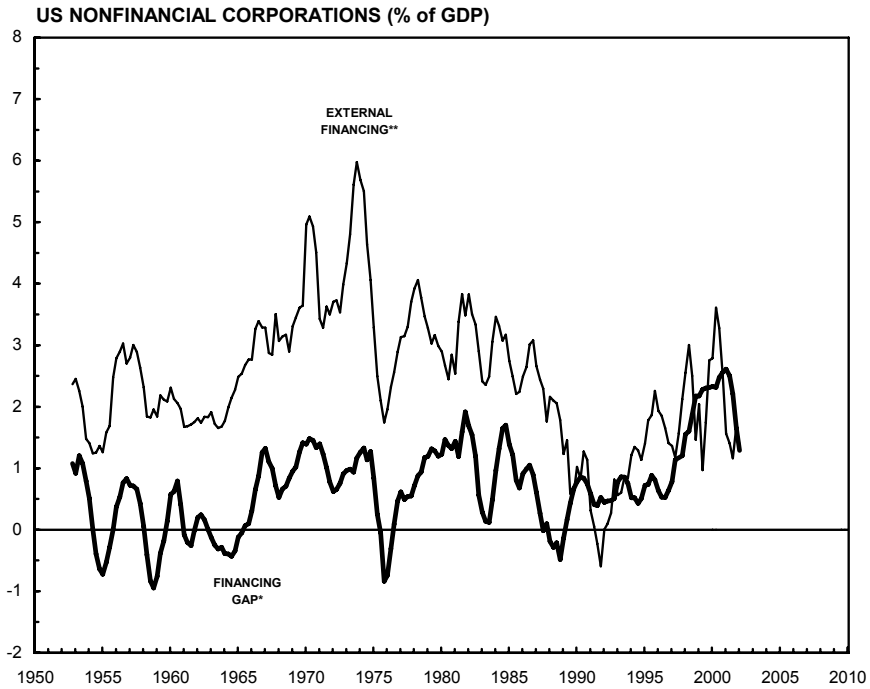


Source: U.S. data from Appendix, Table A-1; U.K. data from Shorrocks (1987) and Board of Inland Revenue (1992), series c; data for Sweden from Spånt (1987) and Statistics Sweden (1992).

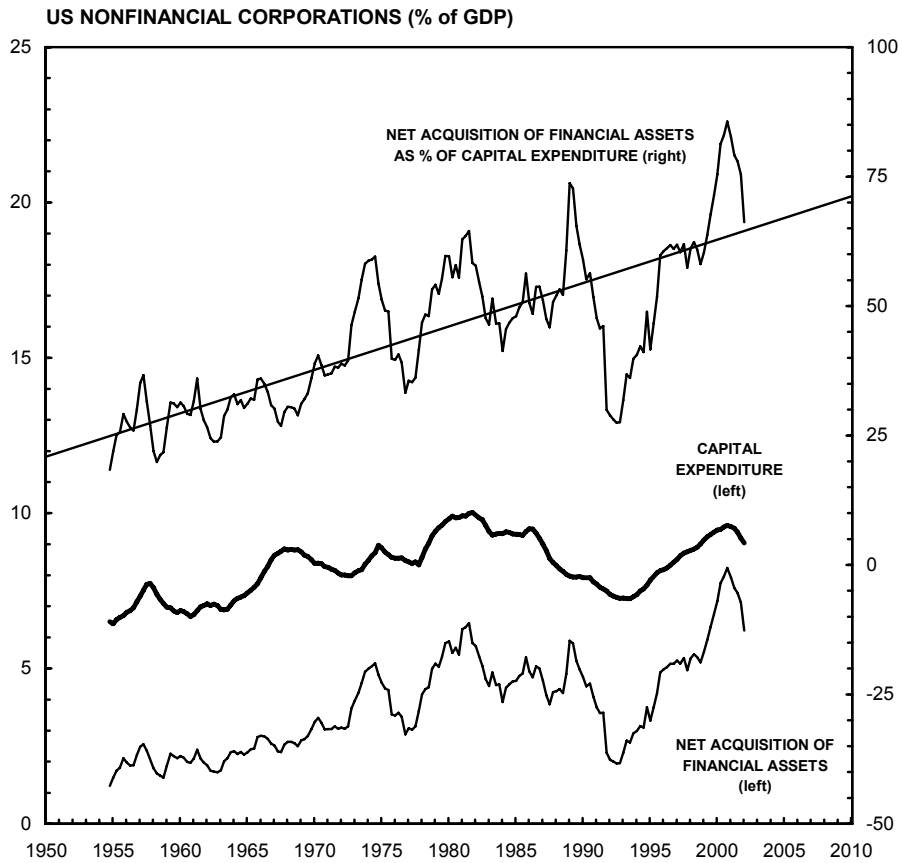
SOURCE: Wolff, Edward N. 1995. *Top Heavy: A Study of the Increasing Inequality of Wealth in America*. An Expanded Edition of a Twentieth Century Fund Report. New York: The New Press.



* After tax profit and depreciation, less dividends
 NOTE: Quarterly data expressed as annual moving averages.
 SOURCE: Federal Reserve Bank, *Flow of Funds*, Table F.102

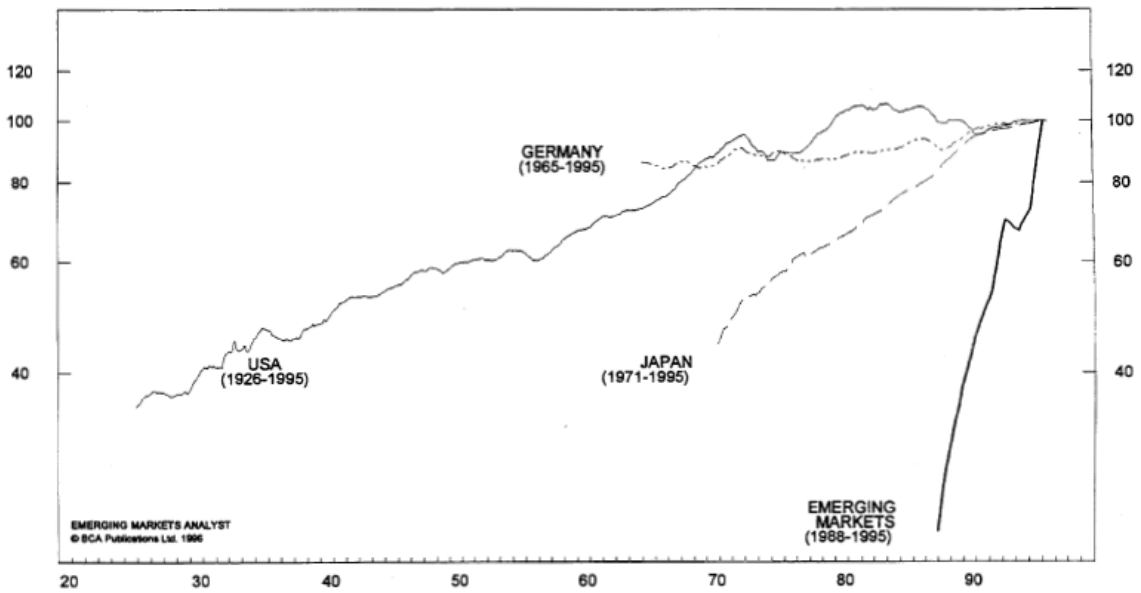


* Capital expenditure less internal financing (after tax profit and depreciation less dividends)
 ** Net issuance of equity and credit market instruments.
 NOTE: Quarterly data expressed as annual moving averages.
 SOURCE: Federal Reserve Bank, *Flow of Funds*, Table F.102

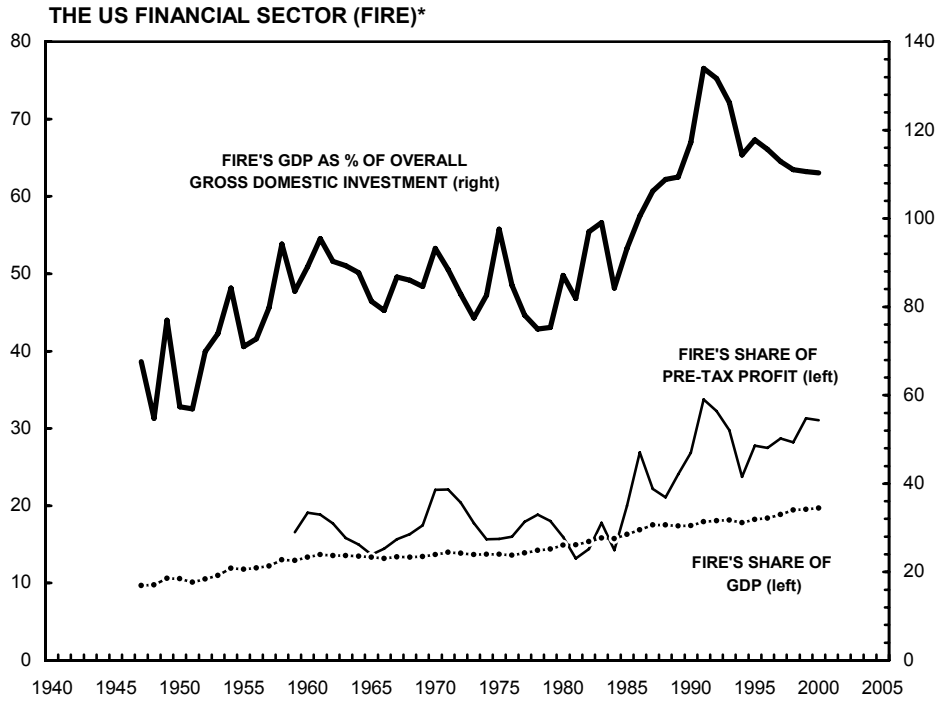


NOTE: Quarterly data expressed as 3-year moving averages.
 SOURCE: Federal Reserve Bank, *Flow of Funds*, Table F.102

CHART 8: STOCK QUANTITY INDICES (JANUARY 1996 = 100.0)



SOURCE: Nitzan, Jonathan. 1996. The "Dilution Effect" and Emerging Equity Markets. *Emerging Markets Analyst* 5 (1, May): 12-21.



* Finance, insurance & real estate.
 SOURCE: US Bureau of Economic Analysis; DRI

Investment.xls Investment.xls;