

1

00:00:00,160 --> 00:00:22,460

Questions? Yes, I would like to ask Randy about where the 29 trillion are reported. Because in the Fed balance sheet the numbers don't show up. And I remember reading a Kelton a paper by Kelton lending for central banks was also very high. So where are all these numbers reported?

2

00:00:22,500 --> 00:00:27,400

Because the Fed's balance sheet that show 2.8 trillion or 3 trillion. About 3.

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00:00:27,520 --> 00:00:34,980

Okay a balance sheet of course is a stock the 29 trillion is a flow twenty

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00:00:34,980 --> 00:00:39,840

29.8 trillion actually okay  
so how did we get this it actually took

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00:00:39,840 --> 00:00:46,020

an act of Congress and a Freedom of Information lawsuit by Bloomberg to get

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00:00:46,020 --> 00:00:49,960

the Fed to finally release the data the way they released it was in 29000

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00:00:49,960 --> 00:00:56,370

pages of data completely  
unorganized. Bloomberg started trying to

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00:00:56,370 --> 00:01:01,710

organize it and then two of my PhD  
students are the ones who actually took

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00:01:01,710 --> 00:01:05,129

the 29000 and totaled  
them up. So what is the

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00:01:05,129 --> 00:01:12,450

29 trillion? It's every time the Fed made a  
loan or bought a security we record it

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00:01:12,450 --> 00:01:20,400

now so in let's say the Fed every... your  
bank is in trouble and so every morning

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00:01:20,400 --> 00:01:25,380

the Fed has to make a loan to you and at

the end of the day you repay it and then

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00:01:25,380 --> 00:01:28,950

they make it again in the morning

so we would count every one of those

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00:01:28,950 --> 00:01:32,700

even though the outstanding would be the

hundred and billion that we have to lend

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00:01:32,700 --> 00:01:37,590

you every morning so that you can stay

in business that day so our argument is

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00:01:37,590 --> 00:01:43,950

that of course the peak the 1.7 trillion

was the most the Fed did on any

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00:01:43,950 --> 00:01:50,280

particular day, that's December 2008, that

gives you an idea ok December 2008 was

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00:01:50,280 --> 00:01:56,070

probably the worst month of the crisis  
okay but the crisis didn't end it's

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00:01:56,070 --> 00:02:00,659

still going on and they've ramped up the  
lending to European Central Bank because

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00:02:00,659 --> 00:02:05,369

of the crisis there. So we wanted to get  
a measure over the whole period of time

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00:02:05,369 --> 00:02:09,590

and so it's not directly comparable to a  
balance sheet

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00:02:09,590 --> 00:02:15,590

but it gives you a better indication of  
how severe this crisis is that over four

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00:02:15,590 --> 00:02:21,200

years later we're still in it the feds  
still every day has to lend to financial

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00:02:21,200 --> 00:02:27,050

institutions who cannot borrow in  
financial markets because the financial

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00:02:27,050 --> 00:02:32,269

markets don't trust them okay so it's  
still an indication and important to

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00:02:32,269 --> 00:02:34,450

include that.

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00:02:55,969 --> 00:02:59,180

[inaudible] that's right. [inaudible]

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00:03:09,370 --> 00:03:17,739

well okay Goldman Sachs as most of the  
important positions that have anything

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00:03:17,739 --> 00:03:24,310

to do with the financial sector in the  
administration. That is the basic answer.

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00:03:24,310 --> 00:03:30,340

So the people formulating the policies  
are from the financial sector. They're

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00:03:30,340 --> 00:03:34,480

the, the Treasury secretaries now  
technically Geithner isn't but you

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00:03:34,480 --> 00:03:43,510

remember when he was testifying for  
Congress and, oh, shoot I forgot who it was, one of the New York

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00:03:43,510 --> 00:03:55,150

senators said. John Brown? That doesn't sound right. Schumer. I think it was Schumer said you used to  
work at

said well of course you used to work at

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00:03:55,150 --> 00:04:00,000

Goldman Sachs and Geithner says, hold on a second, I never worked at

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00:04:00,129 --> 00:04:05,110

Goldman Sachs. I'm just saying that he is  
so closely integrated with Goldman Sachs

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00:04:05,110 --> 00:04:08,410

that everybody believes he came out of  
Goldman Sachs and actually he came out

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00:04:08,410 --> 00:04:12,430

of the New York Fed, but at the New York  
Fed what was he doing he was babysitting

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00:04:12,430 --> 00:04:17,109

the financial institutions. Okay so  
anyway that's part of the answer. The

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00:04:17,109 --> 00:04:22,900

other part of the answer is we have  
shifted so much of the income flows and

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00:04:22,900 --> 00:04:29,680

wealth to the financial sector and both  
parties need campaign contributions and

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00:04:29,680 --> 00:04:34,930

so if you need a billion dollars to run  
a presidential campaign, which is about

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00:04:34,930 --> 00:04:39,400

the number you need now, you really can't  
do this without fa, the Wall Street

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00:04:39,400 --> 00:04:47,220

money so it's a huge problem  
okay. People who have studied crises

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00:04:47,220 --> 00:04:54,789

responses find that you have, if you're  
going to do major reforms you have to do

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00:04:54,789 --> 00:05:01,720

them immediately because if it starts to  
look like you've resolved the crisis the

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00:05:01,720 --> 00:05:05,680

political will disappears. So you're  
absolutely right if we had done

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00:05:05,680 --> 00:05:11,470

something in 2008 we probably could have  
done it, but we didn't do it that way we

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00:05:11,470 --> 00:05:17,729

had the Fed and Treasury meeting and  
doing possibly illegal things to

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00:05:17,729 --> 00:05:23,850

consolidate these institutions  
to make them even bigger, they're already

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00:05:23,850 --> 00:05:30,090

too big to fail, now they're much too big  
to fail. So, but one note of good news

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00:05:30,090 --> 00:05:34,610

Dodd-Frank makes most of what they did  
illegal

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00:05:34,610 --> 00:05:40,860

explicitly illegal. The Congress was  
still mad enough a couple years later

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00:05:40,860 --> 00:05:47,699

that when they wrote Dodd-Frank they

wanted to make sure that the Fed never

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00:05:47,699 --> 00:05:54,449

did what it did again and so when the  
crisis hits and I believe that that

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00:05:54,449 --> 00:06:00,120

could be you know anytime, you can't  
predict, and the Fed is worried about

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00:06:00,120 --> 00:06:04,080

this too now they won't be able to do it  
at least not in the way they did it

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00:06:04,080 --> 00:06:08,880

before they won't be able to save them  
so that gives some hope that they really

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00:06:08,880 --> 00:06:31,640

will downsize them now. Do you think that the financial infrastructure is so complex that even if they  
try to eliminate part of it, it would now function [inaudible]. In other words, can we go back?

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00:06:31,740 --> 00:06:41,080

Yeah, okay, so this is vastly overstated  
the reason is because look at the

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00:06:41,080 --> 00:06:47,410

bailout so it goes to a dozen  
institutions and half of those are

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00:06:47,410 --> 00:06:54,040

foreign. If you take the debt on debt,  
financial institutions owing financial

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00:06:54,040 --> 00:06:58,840

institutions, you find out its the top  
six that owe each other before the

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00:06:58,840 --> 00:07:05,890

crisis it was the top 12 so the top 12  
oh the top 12. So in 2008 in fall when

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00:07:05,890 --> 00:07:10,540

the crisis hit seriously, you could see  
it in 2007, but if they had taken the top

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00:07:10,540 --> 00:07:17,530

12 banks closed them on a Friday, start  
collecting the data, put the balance

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00:07:17,530 --> 00:07:23,680

sheets together, and net out anything  
that bank of America owes Citibank and

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00:07:23,680 --> 00:07:29,380

vice versa has just netted out you would  
have gotten rid of almost everything 97%

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00:07:29,380 --> 00:07:34,930

of all derivatives were in the top seven  
or eight banks. Okay so in other words

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00:07:34,930 --> 00:07:37,690

we've got 5,000 banks in the United  
States,

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00:07:37,690 --> 00:07:44,740

4,000, hundred... 4,890 of them didn't

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00:07:44,740 --> 00:07:49,600

do any of this stuff okay and they would  
have been absolutely fine in 2008.

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00:07:49,600 --> 00:07:54,190

They're only in trouble now because  
we've had an economy in a deep recession

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00:07:54,190 --> 00:07:59,110

for four years and real estate prices  
will continue to go down so they're

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00:07:59,110 --> 00:08:05,940

they're all gradually getting caught up  
in this problem created by a dozen banks.

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00:08:05,940 --> 00:08:12,490

So I actually don't think it's that  
difficult. You, you need to go in on a

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00:08:12,490 --> 00:08:15,430

Friday. You have to close them all at the  
same time, because if you only close one

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00:08:15,430 --> 00:08:21,130

there's gonna be a run on the other half-dozen. So you close them all on Friday on the

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00:08:21,130 --> 00:08:29,410

same at the same time on Monday they all  
open, the ATM machines work, they still do

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00:08:29,410 --> 00:08:33,849

clearing for other banks, but you don't  
allow them to make any new loans, you

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00:08:33,849 --> 00:08:37,450

don't allow them to do any new  
securitization, and you don't allow them

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00:08:37,450 --> 00:08:41,410

to sell their assets because you want to  
get a handle on all that and then decide

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00:08:41,410 --> 00:08:44,360

what to do with them.

Okay, so it's not that difficult actually.

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00:08:44,360 --> 00:08:50,260

We closed banks all the time. We know how to do it.

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00:08:53,720 --> 00:09:06,700

Anyone else? [inaudible] Did the Feds know [inaudible] Do you think they will make use of functional finance mechanism [inaudible].

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00:09:16,380 --> 00:09:24,640

Well so Bill Greider you know secrets of the temple is one of the people who's

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00:09:24,649 --> 00:09:28,899

come out and said the Fed is left-wing, we had Michael Greenberger at the Levy

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00:09:28,899 --> 00:09:35,089

Minsky Conference. He's a really good guy, he was one of the ones who wanted to

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00:09:35,089 --> 00:09:39,980

stop the commodities bubble he was at the CFTC so they've got this idea of

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00:09:39,980 --> 00:09:47,589

course it's overstated okay the the Fed  
has never supported regulation and

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00:09:47,589 --> 00:09:55,399

Bernanke is probably not gonna suddenly  
be a good regulator, but they they are

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00:09:55,399 --> 00:10:02,420

scared and they have reached the limit  
of what they can do okay. They want

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00:10:02,420 --> 00:10:08,089

mortgage relief, but they don't see any  
way that they can do it and I think

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00:10:08,089 --> 00:10:12,199

they're actually right about this now I  
could come up with technical ways for

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00:10:12,199 --> 00:10:16,819

them to do it but really this should be  
fiscal policy and so now you have the

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00:10:16,819 --> 00:10:23,059

very strange situation where the Fed is  
telling the government to spend money

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00:10:23,059 --> 00:10:27,410

and the government is saying no we're  
broke we can't do it right so it's very

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00:10:27,410 --> 00:10:31,129

strangest usually it's the Fed or any  
central bank that's against deficit

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00:10:31,129 --> 00:10:38,509

spending but I think the the reality is  
that there is no clean way for the Fed

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00:10:38,509 --> 00:10:43,209

to do anything that's going to help and  
they realize that. [inaudible] [laughter].

100

00:10:45,529 --> 00:10:58,589

There not borrowing from China. Can't Bernicky run a session in Congress and say look its only journal number switching to create money out of thin air.

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00:10:58,589 --> 00:11:04,290

Just... It's so hopeless right now, that part is so hopeless,

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00:11:04,290 --> 00:11:14,700

because Obama has been a deficit Hawk from the first campaign for him to

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00:11:14,700 --> 00:11:21,930

change now would just be too difficult and so he's moved everyone that

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00:11:21,930 --> 00:11:26,220

direction so if you can't get him to change I don't think there's any chance

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00:11:26,220 --> 00:11:32,250

in Congress because it's just you can win too many political points by calling

106

00:11:32,250 --> 00:11:42,800

Obama, you know big deficit spender, so I

don't think you can start with Congress. I am [inaudible] Oh my goodness. They're broke. That's too general for me.

107

00:11:51,770 --> 00:11:55,200

You know well I mean I think Randy speaks

to it I mean you know obviously all

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00:11:55,200 --> 00:12:01,050

these people lost their houses, lost

their jobs, and you know it's also gonna

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00:12:01,050 --> 00:12:05,100

be the case that probably they're not,

you know, we can't depend on American

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00:12:05,100 --> 00:12:10,080

households to spend and borrow their way

out of this. I didn't mean you know the

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00:12:10,080 --> 00:12:15,750

phrase you can't get money from a rock.

They don't and on top of that of course

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00:12:15,750 --> 00:12:19,950

you also have you know even the you know  
the mainstream of course always thinks

113

00:12:19,950 --> 00:12:23,670

of well labor should reallocate itself  
or whatever but actually people can't

114

00:12:23,670 --> 00:12:27,410

even do that right because if you're  
stuck in an upside-down house

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00:12:27,410 --> 00:12:31,830

financially even if a job does open up  
in a different state or whatever you

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00:12:31,830 --> 00:12:35,880

want to go back to college you can't  
sell your house right because you owe

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00:12:35,880 --> 00:12:39,750

more money on it than it's worth

so people are sort of stuck in these

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00:12:39,750 --> 00:12:44,700

places I mean at least the last several  
crashes and recessions at least you

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00:12:44,700 --> 00:12:49,110

could pack up your car and go to  
California but that's not even a possibility

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00:12:49,110 --> 00:12:53,490

now either. So even by that standard we have a you know another

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00:12:53,490 --> 00:13:08,910

layered on that set of problems there. Speaking of equity and speaking of the wealth of labor  
[inaudible]. Oh, no, but now that the job is done if we're hoping for

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00:13:08,910 --> 00:13:12,329

some sort of you know see people go  
shopping or something like that I mean

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00:13:12,329 --> 00:13:15,720

they're not doing it. I mean it's kind of

see them people paying down their credit

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00:13:15,720 --> 00:13:21,120

cards, some of the is just getting paid  
down through default, but people don't

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00:13:21,120 --> 00:13:25,230

have the money and like I say they can't  
even move anyway even if they did see an

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00:13:25,230 --> 00:13:29,910

opportunity so the labor markets by that  
by mainstream standards leave markets

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00:13:29,910 --> 00:13:35,100

much more inefficient that used to be. I  
think we have seen the private sector

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00:13:35,140 --> 00:13:39,320

debt ratio coming down but it's mostly  
defaults, it's mostly not people paying

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00:13:39,320 --> 00:14:05,140

off their debt. [inaudible] I have a quick question about how, I mean, in terms of this notion of money managers capitalism and the idea that the stock market was [inaudible].

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00:14:05,140 --> 00:14:14,170

I could have good picture of I am sometimes in a slide which shows the average holding period

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00:14:14,170 --> 00:14:21,010

for stocks if you look in 1929 it dipped  
down to one year, so the average stock

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00:14:21,010 --> 00:14:26,350

was held one year, and and that's with  
you know all sorts of widows and orphans

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00:14:26,350 --> 00:14:33,490

who never sell their stocks. Okay in the  
Great Depression it goes way up okay so

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00:14:33,490 --> 00:14:41,200

the speculative turnover disappears it  
very gradually starts to come back we're

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00:14:41,200 --> 00:14:47,050

now down to about six months and this is  
a huge part of the problem

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00:14:47,050 --> 00:14:54,040

so CEOs are rewarded with stock options  
and so all the incentive is to pump up

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00:14:54,040 --> 00:15:07,240

the stocks and that means short termism which means laying off your workers. That's right. Until...You  
have to change executive pay.

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00:15:07,240 --> 00:15:12,430

Executive pay... Almost all the bad stuff that went in went on in the financial sector has to

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00:15:12,430 --> 00:15:18,520

do with the way top management is  
rewarded with hundreds of millions of

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00:15:18,520 --> 00:15:32,579

dollars of bonuses based on very short-term returns and hiding risks for a couple of years

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00:15:32,579 --> 00:15:37,720

which isn't hard to do with financial

assets so you can always hide the risk

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00:15:37,720 --> 00:15:43,720

and even hide the losses for quite a  
while and boost your conversation so

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00:15:43,720 --> 00:15:48,760

there has to be something like for... five  
so the money gets set aside for five

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00:15:48,760 --> 00:15:54,060

years you don't get it if anything goes  
bad it's gone you lose it. You have to have something like that to change the behavior.

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00:16:09,100 --> 00:16:45,040

[inaudible]

146

00:16:45,040 --> 00:17:01,900

I agree with it. [laughter]. I mean, but no, seriously if there is any particular charm to the era we live in  
it's a period when you can't be fool unless you really, really want to be.

147

00:17:01,900 --> 00:17:12,280

Like you know... We are not in a period of time where it's difficult to figure out what's going on or the politics are obscure or something like that. It really is kind of a gloves off sort of period.

148

00:17:12,420 --> 00:17:18,380

And almost the lies that were told are almost so silly a vacuum that they

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00:17:18,380 --> 00:17:24,620

actually almost draw attention to what's going on. You know what I mean. It's kinda where the strippers are rarely

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00:17:24,620 --> 00:17:28,490

nude they always wear something to draw their attention your attention to. So it

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00:17:28,490 --> 00:17:32,960

is now the political lies are being told are so transparent that it almost draws

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00:17:32,960 --> 00:17:36,290

further attention to what they're doing. Like I say there are some people who for

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00:17:36,290 --> 00:17:40,340

emotional reasons, like whatever  
they are, want to be fooled, they want to

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00:17:40,340 --> 00:17:58,200

believe that something is working but really it's not. I don't know, if you just know and this coming back to a little bit to what Randy was doing.

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00:17:58,380 --> 00:18:10,680

But you probably noticed that the Treasury Department is trotting out this dog and pony show about, how well the crisis is over and the banks all paid us back and everything is great. If you go on the huffpro there's a whole spreadsheet there were they got all these slides.

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00:18:10,800 --> 00:18:19,640

Everything got paid off. It's all great. It's like really? Really? Like you don't know whether to laugh or cry. It's just like really that's it. The thing about the old days, propaganda, they used to tell a little bit of truth then surround that with lies

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00:18:19,800 --> 00:18:31,360

with the idea that it would be persuasive. That's something that a least the East Germans knew alot about. But we don't do that anymore. They just, it's the bold ones. It trips me out.

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00:18:31,600 --> 00:18:40,450

Can I just say, just add, Jim probably was  
there but a long time ago maybe a decade ago I

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00:18:40,450 --> 00:18:48,020

remember Doug Brown gave a talk probably AFIT possibly AFEE arguing we're

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00:18:48,020 --> 00:18:54,010

moving back into feudalism that that's

where we're going where it's all rent

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00:18:54,010 --> 00:19:01,790

okay all this what they, what Wall Street

is doing really is just pulling rent out of the economy

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00:19:01,790 --> 00:19:06,160

There they're not doing anything productive at all. It's all rent seeking behavior

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00:19:07,440 --> 00:19:16,130

and stripping is pulling right out. So

anyway you might look at that old paper.

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00:19:16,310 --> 00:19:27,120

There is a lot of talk about financialization and knowing complexity and all that but if you look at the pharmaceutical industry in this country there is a huge bureaucracy there.

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00:19:27,120 --> 00:19:32,490

there. I mean Medicaid's running a two  
point nine percent administrative

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00:19:32,490 --> 00:19:35,430

overhead in the private insurance  
companies are run about eighteen point

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00:19:35,430 --> 00:19:39,690

seven percent if you look at the  
administrative overhead these

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00:19:39,690 --> 00:19:45,540

universities here in the last thirty  
years it's also managerialism that

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00:19:45,540 --> 00:20:02,620

overhead that's kind of on top of us. I guess I haven't gotten the that management level yet. But it's  
kind of on top of us. And I worked originally at a university and we had not budget constraint on dean  
hiring and they proliferate like bunnies.

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00:20:02,620 --> 00:20:13,080

But also why did GM get in trouble? It was GMAC and GE. Both GM and GE had

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00:20:13,220 --> 00:20:19,580

been getting most of their profit from

their financial stuff and as we now know, of course, that was all a mirage. They were cooking the books and we had to bail them out. And we say

172

00:20:24,580 --> 00:20:31,620

we're saving auto jobs, right, but it had nothing to do with the sale of automobiles. Cause of

173

00:20:31,620 --> 00:20:35,140

their finance arms. Okay, well let's take a break. 10 minutes. 10 minutes and we'll come back at 5 o'clock.