

What Has Finance Done for Us Lately?

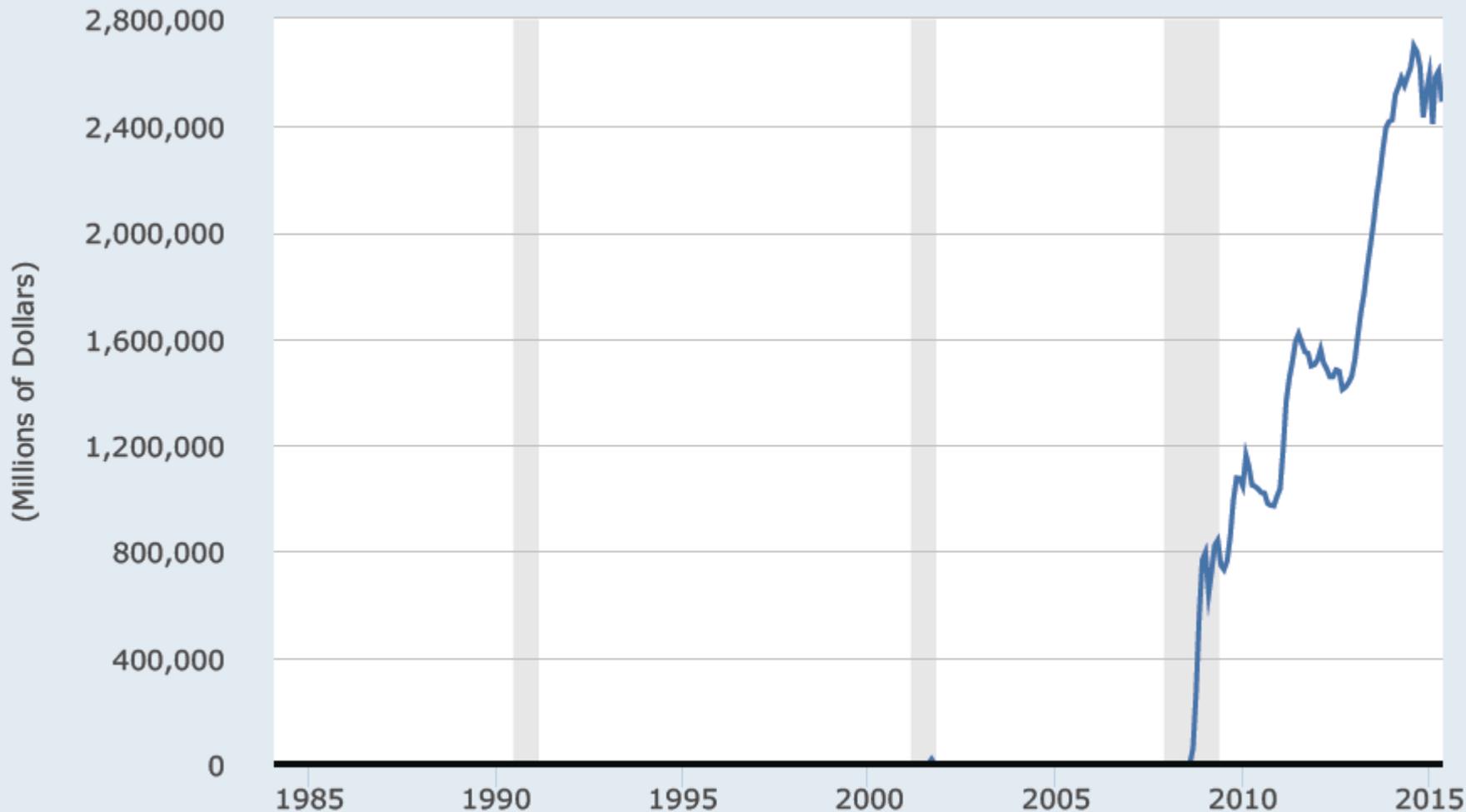
Dodd-Frank 5th Anniversary Event
Americans For Financial Reform
July 14, 2015

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Financial Intermediation Process is Still Broken

- Monetary policy is largely pushing on a string
- Either it raises asset prices which has some negative consequences
- Or it adds to excess reserves of the banking system.

— **Excess Reserves of Depository Institutions**



Source: Federal Reserve Bank of St. Louis

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

But these problems with a
dysfunctional financial system pre-
dated Dodd-Frank or even the financial
crisis itself.

Six Roles for Finance

1. Channel finance to productive investment
2. Provide mechanisms for households to save for retirement
3. Reduce risk
4. Provide stable and flexible liquidity
5. Provide an efficient payments mechanism
6. Create useful financial innovations

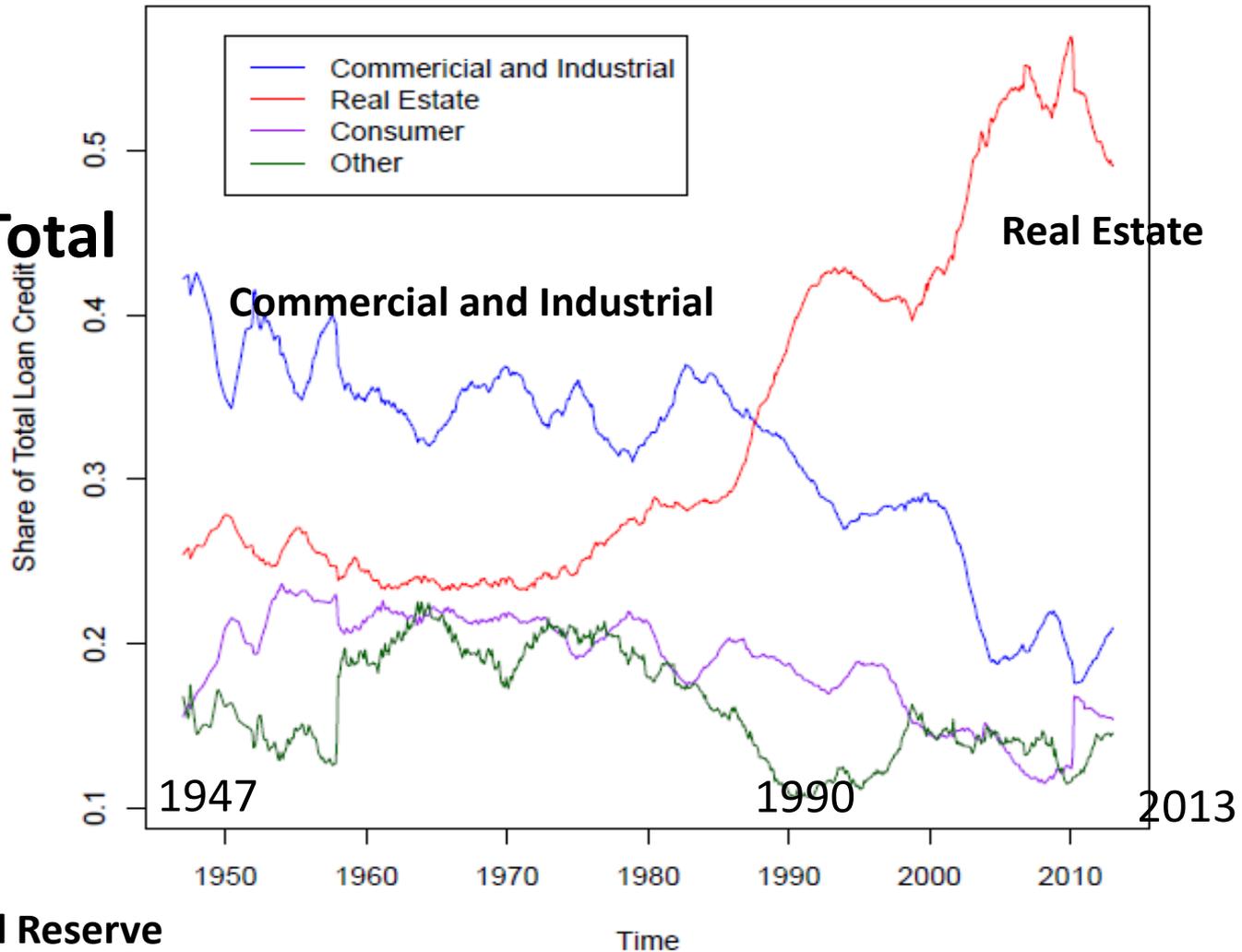
Six Roles for Finance

1. Channel finance to productive investment

What has banking been up to?

Allocation of Loan Credit: 1947–2013

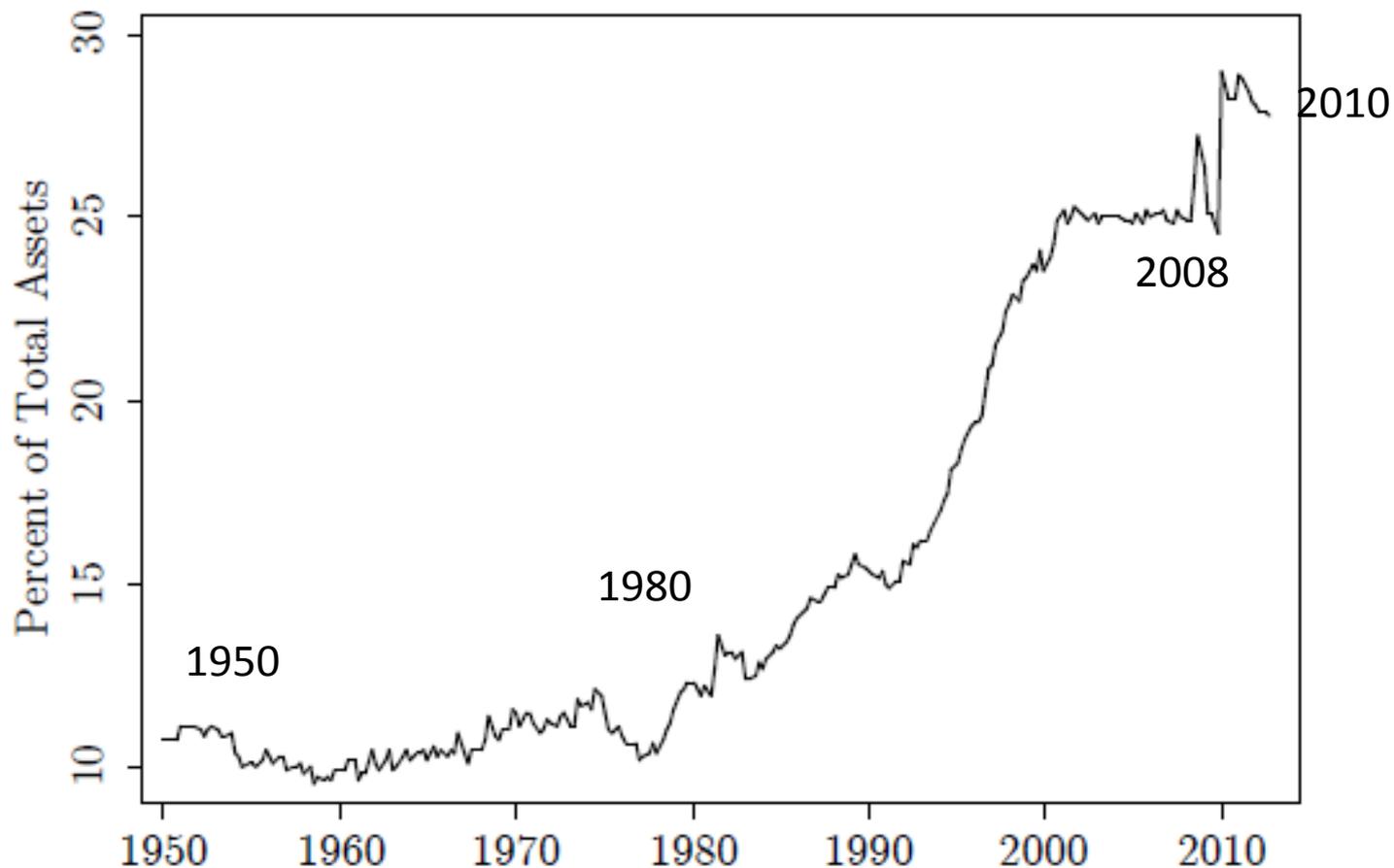
Share of Total Loan Credit



Source: Federal Reserve

Intra-Financial Assets as Share of Total Assets, US, 1950-2010

Figure : Intra-Financial Asset Share

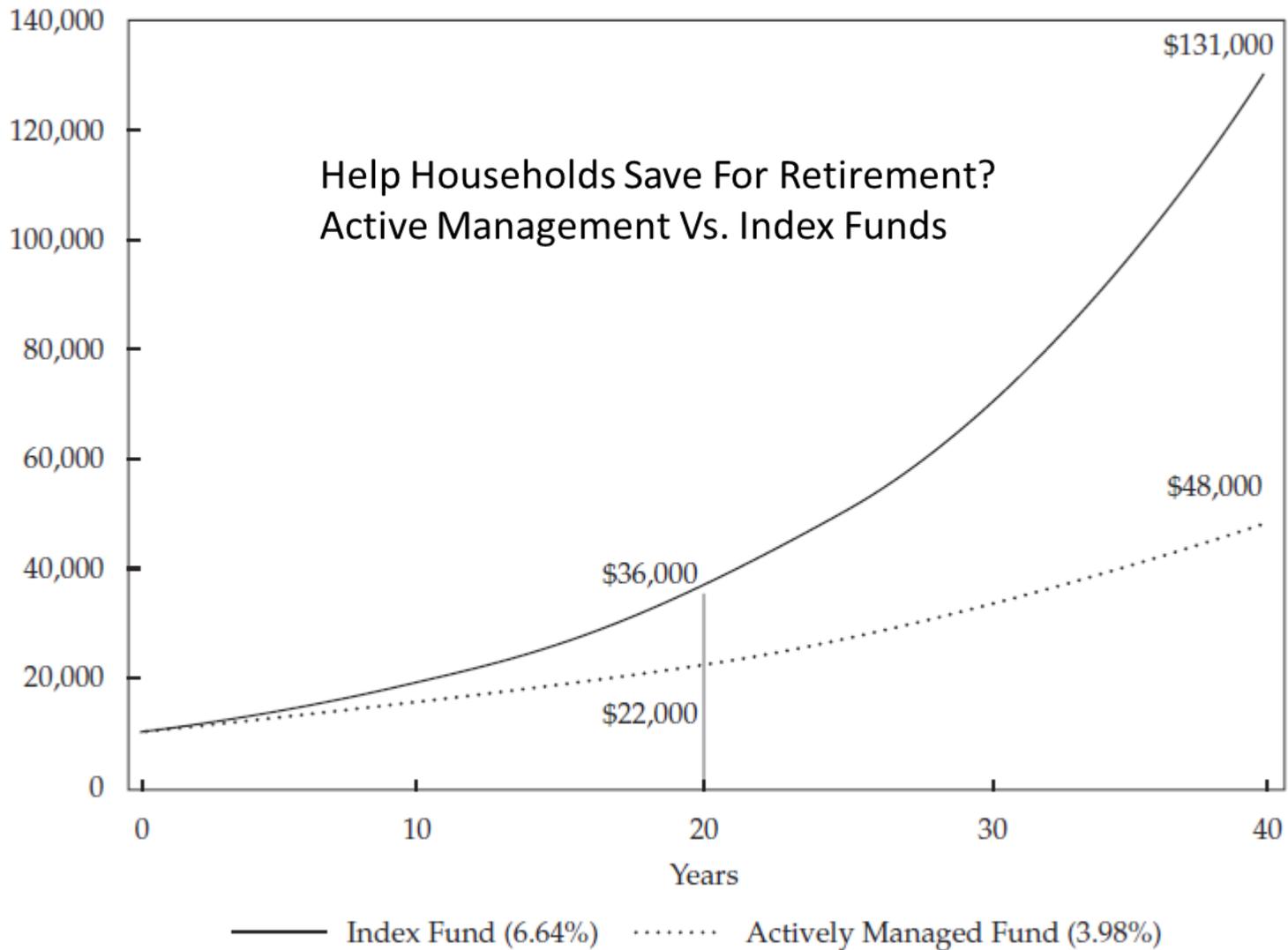


Source: Montecino, Epstein and Levina, 2014

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2. Provide mechanisms for households to save for retirement

Asset Value (\$)



Source: John C. Bogle, 2014

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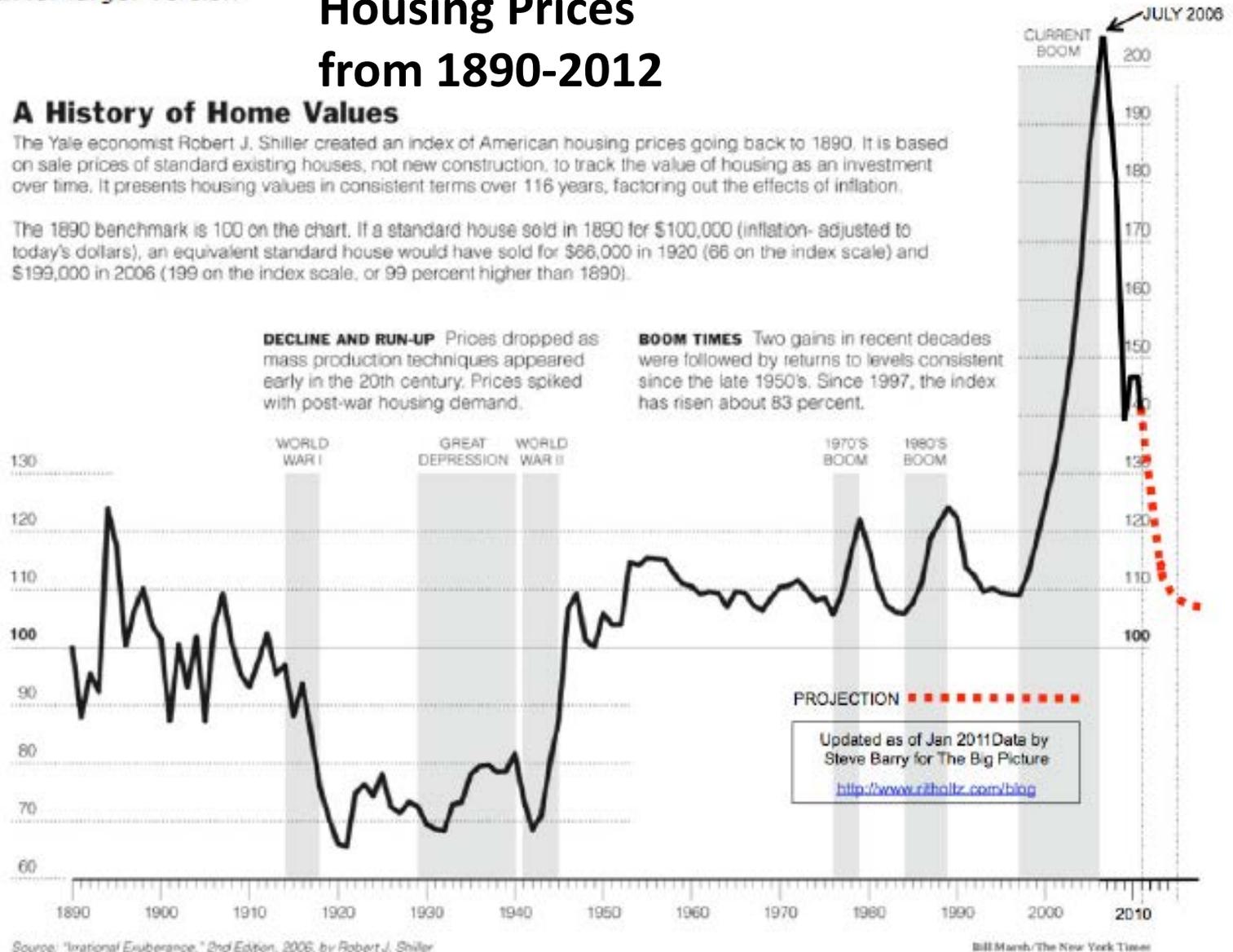
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The Bubble Bursts: Housing Prices from 1890-2012

A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).



Source: Robert Shiller and New York Times

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What good is financial innovation?

Paul Volcker

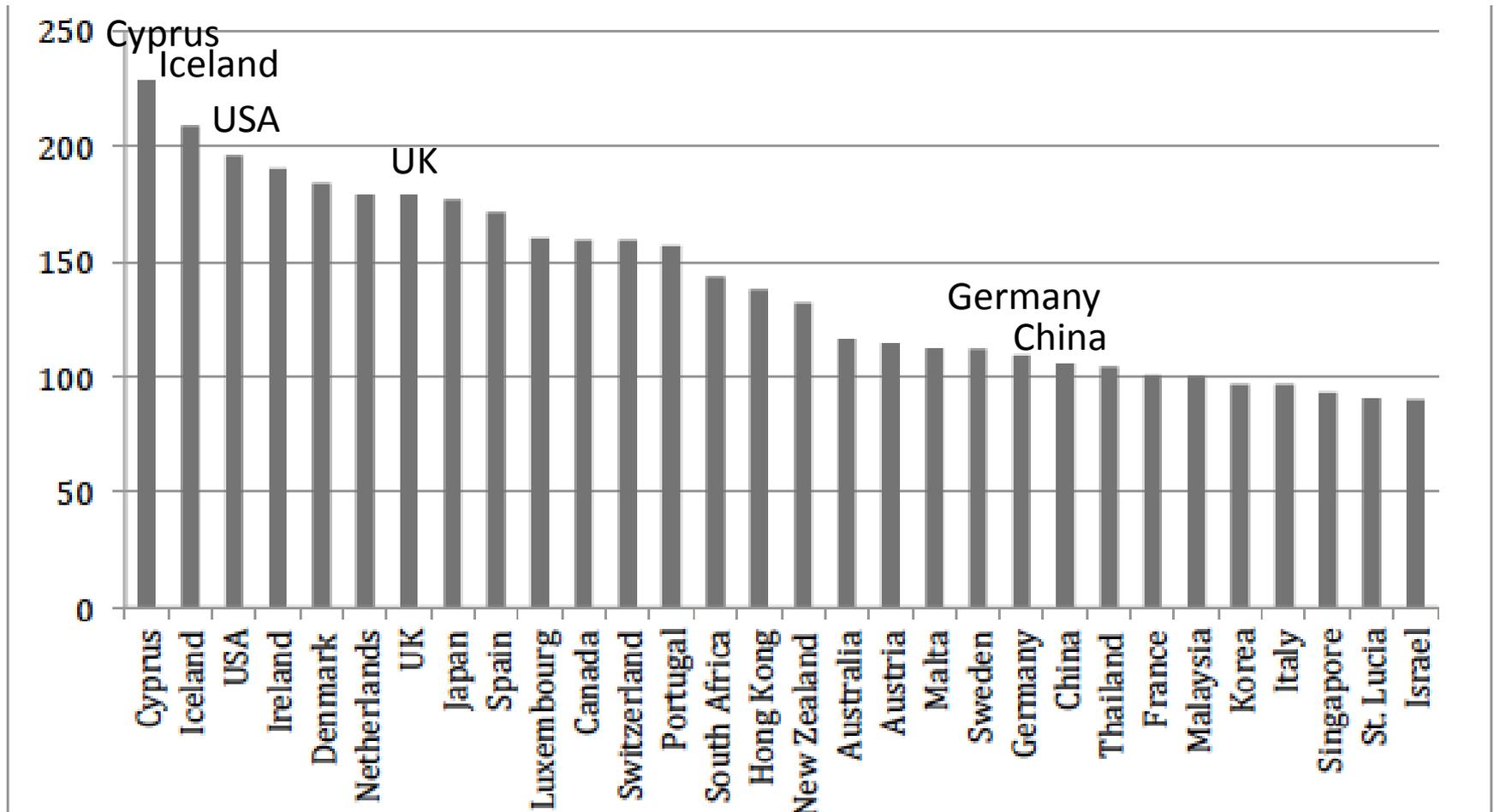


Forty Percent of Financial Innovation Promotes Tax and Regulatory Evasion

Source: Epstein and Crotty

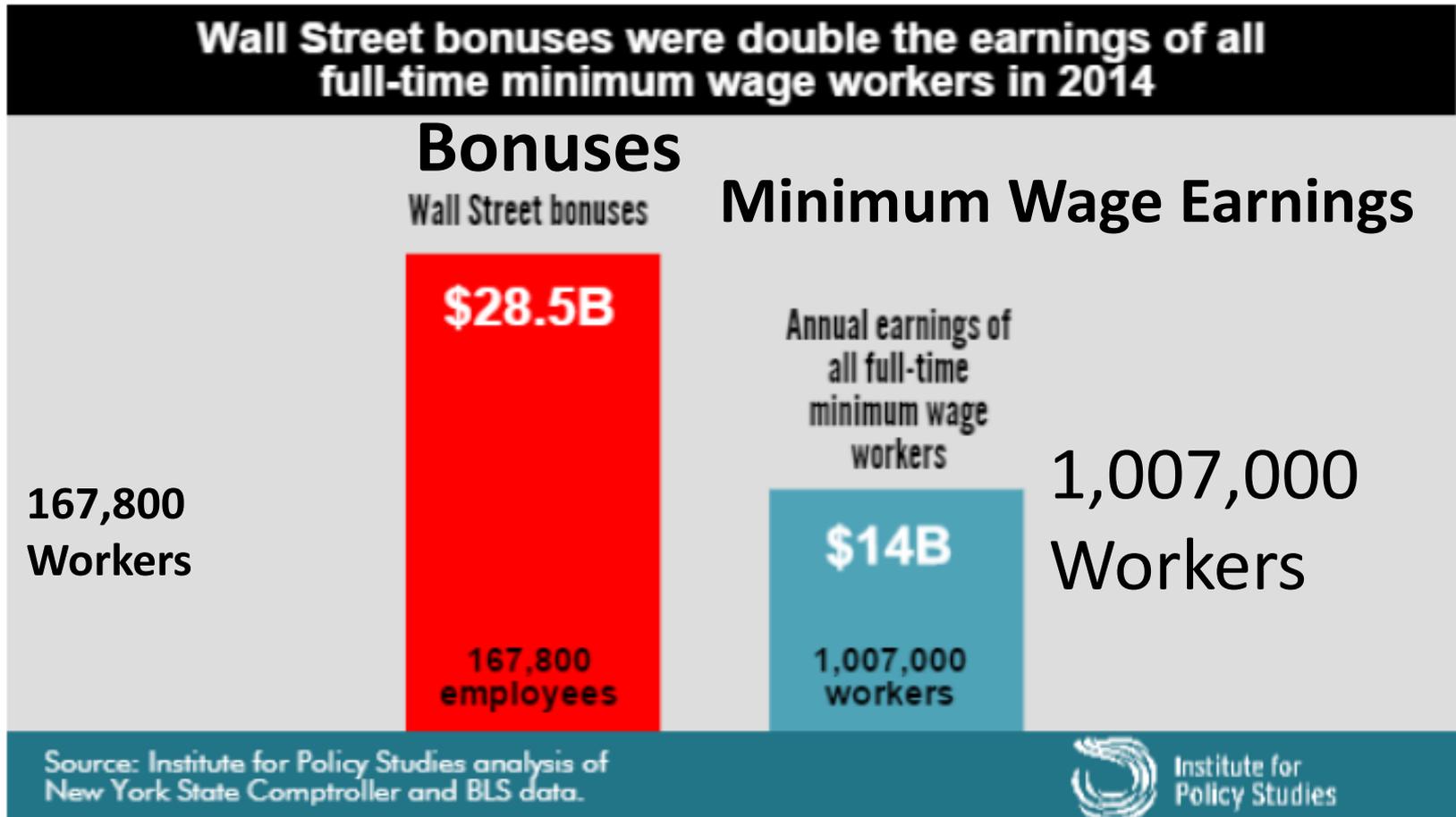
Size of Finance and Economic Growth?

Countries where private credit exceeded 90 percent of GDP on average from 2005 to 2009



Roaring Banking is an Engine of Inequality

Wall Street Bonuses in 2014, Double All Minimum Wage Incomes



Source: Sarah Anderson, IPS

Dodd-Frank can make the financial system safer and more robust

- But we still need more restructuring of financial system so that it will allocate more resources to serving the needs of main street, and less in just fueling more complex deals on Wall Street.

THANK YOU VERY MUCH