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Original Paper

Finance and Political Participation

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Abstract

This essay identifies and discusses the factors and forces arising from finance that influence peoples' political participation. It does so at two levels: (1) micro-economic or individual and (2) macro-economic and social. We find that both factors and forces at work are significantly adverse to political participation at all levels. The prime intermediate factor here is economic inequality, which is the subject of a companion essay published earlier.

Keywords

financial, participation, investors, assets, stocks, inequality, risk, instability

1. Introduction

As the last "Great Recession" revealed, financial innovation and game-playing by major financial firms serve to generate both financial instability and greater inequality. In his 2019 book entitled ***SHELL GAME: The Story of One Man's Rant Against the Big Banks in an Attempt to Save the World Economy***, M.K. Hoffman reveals that the Recession was sparked by a huge jump in oil prices.

The apocryphal "99%"—small investors among individual citizens if they had money to invest at all—had long since become irrelevant players in financial markets. Among the 1% with money to play with, not one executive of a major financial company was even indicted, let along convicted of financial malpractice. Yet the "1%" associated with the largest organizations served to increase their wealth while immiserating millions of Americans.

2. Method

The method here is twofold:

(i) Identification of relevant statistics reflecting the distributions of assets, the ways they are invested, and the rates of political participation among classes of people by income and wealth.

(ii) Review of statistical analyses of the latter by researchers who have investigated interrelationships between and among types of political participation and levels of economic inequality.

3. Result

What needs to be explained is how the "1%" associated with the largest organizations served to increase their wealth while immiserating millions of Americans.

Let's start with "game playing" by major operators in the financial markets. Look at the choices they have as to how profits can be invested (at this point, in no order of priority):

A. Not "invested" but set aside as retained earnings.

B. Pay dividends and/or buy the stock of one's own company.

C. Buy the stock of other companies.

D. Buy financial instruments—short-term or long-term, regular or futures markets.

E. Invest in hard assets, including construction, buildings, work force, equipment and technologies.

F. Invest in soft assets such as education, information and networking.

For every "buy" choice, there is a corresponding "sell". This gives financial operators (hereafter abbreviated "FO"s) lots of choices—12 majors in all plus many more that follow. The broad FO category includes CEOs, Presidents and CFOs, not only of banks, mutual funds and pension funds of a host of primarily "financial" organizations but also of a broad range of non-financial organizations in practically every type of industry, both for-profit and non-profit. Thus, the implications of these choices have consequences for practically the whole of American society and economy.

Whether or not profits are employed as any more than say, like money stuffed in a corporate mattress, is an important question. Retained earnings can be kept idle, invested (or not) in a low interest return mutual fund. They could also be invested in workforce improvements (those not already budgeted, pre-profit) such as employee training, employee pension funds (if any) and/or executive and/or other employee benefits. As for the latter, there are obviously two of many distributional questions here. Who benefits? How large a percentage of retained earnings are invested in "rank and file" employees? Inequality redux?

Now let's continue to "take it from the top". B follows A: Pay dividends and/or buy the stock of one's own company? This is usually undesirable from a distributional standpoint. Why? Because payment of dividends and/or stock buy backs tend to either support or raise prices of company stocks. Distribution of dividends goes to existing share holders—usually a minority proportion of any population. Note, however, that "existing" can chang every rapidly in a market where buy or sell trading time is measured in micro-seconds through "fast" trades.

In order, now item C: Buy the stock of other companies? The criticism already noted above pertains here as well. The benefits go to shareholders. What about others who have been called "stakeholders", such as members of the community-at-large where companies are located, local and state taxpayers and others?

Item D?—Buy financial instruments—short-term or long-term? Both are presumably "safe". Earnings from short-term investments of retained earnings would add to those earnings and benefit existing shareholders. The same applies to purchases of long-term instruments. The only differences lie in degrees of risk and changes in the pool of shareholders.

As for "degrees of risk", what about short-term, high-risk investments such as puts and calls in the so-called "futures" market? This is an area where company owners can play games they can win or lose large. Entire companies can be put at risk and thousands of jobs can be lost through bad choices made by owners (some are CEO's) who have compliant CEO's (perhaps themselves) and Governing Boards who don't mind owners playing bad hands for high scores.

E?—Invest in hard assets, including business start-ups or expansions, construction, buildings, work force, equipment and technologies? Contrary to the purely financial uses of retained earnings, these could bring some greater equity to distributions, especially to the extent that they create new jobs at pay levels that can help sustain families. We have already recognized "workforce improvements". Construction always created jobs, albeit mostly short-term, the shortness or length depending on the size of a project. Existing buildings are usually purchased for businesses to accommodate additional employees.

Startups always create at least a few jobs. Expansions likewise. Adoption of new technologies, including those embodied in equipment, are a double-edged sword. Jobs may be created or destroyed at the enterprise level. At the macro-economic level, evidence runs both ways and, overall, is currently indecisive. In the long-run, the net impacts of the new digital technologies are more likely to be negative. Most of us now aged (except this author) prefer to play with their retirement money and not deal with start-ups.

Should the last have been first? Let's see with respect to (F): Invest in soft assets such as information and networking. Information and technology are now married. Information is completely the venue of digital technology. The marriage is now dubbed "ICT"—Information Computer Technology. Thus, the impact prognoses promise to create jobs for the well-trained and well-educated. The distributional impacts on "blue-collar" workers are likely to be adverse. The iniquitous shifts in the educational sector, revealed elsewhere, stand to do nothing to reverse the "adverse", rather the opposite.

As suggested at the outset, greater instability is also likely. Why?—Because ups and downs of the business cycle are aggravated in the face of global warming and climate change [GWCC]. The increasing dependence of the economy on "Finance"—especially upon short-term financial transactions—was clearly implied earlier. Now it can be recognized without checking the growing GDP proportions owing to "Finance, Insurance of Real Estate" as well as "Services". The uncertainly of investing increased in the face of an increasing frequency of extreme weather events and other natural occurrences such as fires and rising sea levels attributable to GWCC.

4. Discussion

This essay has gone a long way towards understanding how inequality and instability are fed by private investment and other public/private financial decisions. Unfortunately, not the whole way: There are still several dots to be filled to complete documentation of our interactive framework (not yet a complete model). The most important among these are:

- Impacts of finance (&c) on what should be but are no longer OUR politics and government [especially Congress]. These, well-documented elsewhere, are strongly antithetical to the survival and well-being of our democratic republic.
- Impacts of the #1 influence on politics and public policy—people's participation in politics. See articles by this author on "Participation and Populism" and "Participation and Inequality".
- Detailed interactions between public and private that accentuate the adverse impacts of private choices while decreasing even the possibilities of public investments that would ameliorate the latter. A lot here, for example, springs from grievous shortcoming of our tax systems, especially at the federal level—more than just the recognized, business-as-usual "loopholes". Thus, this and the former run very much together.

Does a more recent article help to fill these gaps? No, notwithstanding a grandiose title (Note 1). Ironically, it pretends to honor the Maximum Power Principle as governing a process that is nothing more than the conventional small-bank, small-business lending and currency circulation process doctored up with fancy verbiage borrowed from biology. For example: "By putting system resource claim tickets (dollars) directly into the hands of entrepreneurs and consumers willing and able to spur system growth through the establishment of new cells and distribution systems, it became possible to rapidly increase metabolic activity and a rapid replication of existing and novel dissipative structures".

The rest goes on to discuss business cycles without even any mention of the term—like a biologic-academic version of Keynes' "animal spirits".

"Power" does not figure—not market, institutional or any other. Yet as we have seen, it is central to any real-world explanation of what is shaping an increasingly unequal society. Return to the 3rd paragraph of this article. The power of financial-sector decision makers, not small investors, is key to how retained earnings and other investible assets are employed.

As far as we ordinary folks are concerned, there are two major options if "We the People" are to prevail in the long-run:

1) Encourage hope, faith and charity and raise our spirits to help create better futures out of our better natures; and

2) Participate in a democratic political process. In the final analysis, this is the only countervailing power vs. The rising power of financial executive and finance overall. People in, Money out!

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Note

Note 1. Cost of Extinction-Billions.