

THE LAURA FLANDERS SHOW

LAURA & STEPHANIE FLANDERS: SISTERS DEBATE THE ECONOMIC CRISIS

LAURA FLANDERS: I have known today's guest almost all my life and there is a significant hint about our relationship in that statement. We attended a lot of the same schools early on but then went different ways. She to Oxford, Harvard, the Clinton administration and the BBC. Me to Barnard, Northern Ireland, Pacifica Radio and Air America. We once threw a party when we were living in DC to which she invited her friends, many of whom were people trying to attend the World Bank and IMF meetings taking place at that time. And mine were protesting those very meetings. You get the idea. We are sisters with different points of view on a lot of things, but a shared concern about the fate of the world and its people and a common fascination with economics, which I at least understand as being the way that wealth is produced and consumed and distributed or not. Stephanie Flanders is head of economics and government at Bloomberg. She was chief market strategist for Europe at JP Morgan Asset Management in London before that from 2013 to 2017. And economics editor for the BBC for five years right after the last financial crisis of 2008. She's also host of the very excellent podcast, Stephanomics which I heartily recommend. She is one of the world's great clear explainers. And boy, do we need that. So Stephanie, I am very glad have you on the program and I think our audience will forgive me if I refer to you as Steph or Stephanie, maybe not by your last name. Is that all right?

STEPHANIE FLANDERS: I think that is all right, Laura.

LAURA FLANDERS: So let's start. I try to just ground myself and my guess with what's on your mind as we are beginning this conversation. Like who or what is sort of topmost in your mind and heart right now?

STEPHANIE FLANDERS: So I would say unsurprisingly, I'm trying to think through the implications of this sort of, we're not calling it a financial crisis, but the stress in banking system or certainly parts of the banking system, what it means for monetary policy, for what happens to interest rates. We knew that central banks like the US Federal Reserve had a big job on their hands already trying to reduce inflation without bringing the US economy grinding to a halt. The same challenge is faced by lots of central bankers everywhere. We haven't really had to live with inflation or deal with it for most of our lifetimes, even though you are so much older than me and I will keep reminding everyone. But we're facing these sort of question marks about banks. The fastest bank run we ever had in history, Silicon Valley Bank with I think more than a billion dollars going out of that bank in 24 hours, which as the US Treasury Secretary admitted we have never seen before. So some parallels being drawn with that global financial crisis, the collapse of

Lehmans, it's pretty different from that. Whether it's different, better or just different and not seen before, I guess is something we're trying to grapple with.

LAURA FLANDERS: Well, while we're talking about politics, I mean, people like me on the left of the spectrum used to sort of imagine a world post nation-states a kind of internationalist order of some kind, I know you're grinning. But now, it seems like nationalism is kind of the name of the game, right and left in in lots of ways. But certainly, at the level of governments, whether you're talking the US, you name it. What are you seeing there that worries you?

STEPHANIE FLANDERS: You talk about people like you thinking about the internationalism? Of course, there was an older bit of progressivism which was actually quite nationalistic about workers' rights here versus the rest of the world. Used to make it hard to pass things like NAFTA even when you were in the Clinton administration, when one was in the Clinton administration.

LAURA FLANDERS: When you were in the Clinton administration.

STEPHANIE FLANDERS: When one had a democratic administration, it was a struggle to get Democrats on board for those kind of free trade agreements. We can have a big debate about whether it was a good thing or a bad thing. But the move that the Democrats made in the US was to become very pro-free trade over that period. Even at the time where Trump was elected, the most pro-free trade voters in the US were all Democrats, not Republicans, and the Republicans were actually faster to sort of nationalize their approach and to think more in nationalistic terms. Personally, I found that fascinating. But I do worry that we are moving to a world where there's a feeling of much more zero sum decisions between countries. Even if you didn't like a lot of the things about free trade agreements, the idea was always there's a quid pro quo and what's better for the world is also better for us. That is increasingly going by the ways.

LAURA FLANDERS: So give us an example, I mean, on the US side, where do you see that nationalism in the policy decisions coming out of this administration that are new or different?

STEPHANIE FLANDERS: Well, the sort of the madly entitled Inflation Reduction Act, which is obviously not really designed to do that at all, but is designed to sort of fast track America's investment in transition to the carbon-free future net zero. That has some very explicit things built into it. Some of it you don't get these billions from the government unless you have good relations with your workers and there's some good progressive rules in there, but there's also rules about being made by friends. Friendly countries/being made domestically. And I think that the challenge there is you can't always, I think it's a dangerous approach because then, you get into a sort of war of subsidies with the Europeans now saying, they're going to massively subsidize and and exclude the Americans from various things. And you are now making quite important long-term decisions on the basis of quite nationalistic constituencies.

LAURA FLANDERS: This is all happening at time when we're grappling with global problems and people talk about it, of course, pandemics, climate change. We had flawed and faulty institutions, the IMF, the World Bank, I talked about them earlier, the protestors of those times and we're talking the mid 90s were calling for fairer rules of those organizations. Some of them were calling for them to be eliminated altogether, but in general, there was this sense of, we need to have more voices at the table, more sort of considerations going into global-decision making. Now do we even have the institutions capable of grappling with any of this?

STEPHANIE FLANDERS: You remember that debate back then was about quite rightly broadening the power base of the say, the International Monetary Fund. There was an understandable feeling that the US shouldn't be running everything that the IMF did in effect because of its relatively large shares. They were set up just after World War II in effect by the winners of World War II. The world's moved on a lot. But with more power, more voting strength has been given to say, China, in reflection of its economic strength. A country that doesn't believe in imposing progressive conditions on countries when they borrow money to do with poverty reduction, doesn't believe in ever writing down any debt when countries get into trouble, is now a bigger voice at that table. So I think although the sort of the desire to democratize those institutions has not necessarily made them places that progressives feel more comfortable and are moving in those kind of directions.

LAURA FLANDERS: You're paid by Michael Bloomberg and the people that subscribe to his various outlets and machines, I'm funded by lovely people like Don Ruehl who's a retiree who lives in Buffalo, New York and he sends me a \$15 check every month and he writes notes on the check. And in the most recent note, he was sounding kind of discouraged about the world and he signed off "Dismayed utopian." And I thought, "Oh, is that what I am?" I'll ask Stephanie at the end of the program whether she thinks I'm a dismayed utopian. But you know, I've said for years the answer to big money is big people. And I've come to kind of wonder as I've traveled around the United States, we're just back from North Carolina, a state that's been effectively gerrymandered into a situation where a fairly 50-50 Republican-Democratic electorate is controlled by an almost total Republican super majority. You have a recent frontline report on the end of Easy Money that showed how the fed every time they tried to reduce quantitative easing, you had bankers pitch a fit and they had to reverse course because the market's tanked. At the federal level, you have Biden come in with Build Back Better, but we kind of get to build back a bit and then reaction sets in. And at the local level, it's way harder whether you're trying to raise taxes on the rich or transition to green anything or shut even a prison that everybody agrees to be shut. It seems almost impossible. And the president's first veto, I don't know whether you saw this, but the first veto was of a bill backed by two Democrats that would've banned even considering the social and environmental impacts of a corporation when you're managing money and investments, which gives you a sense of just how retro the debate is, right at a time when we

need to be much more forward-thinking. Very long question, but what happens to democracy and the situation with so much money is so much and so concentrated?

STEPHANIE FLANDERS: We've always felt that there was enormous flaws in American democratic system and there was no greater evidence of that, I always felt, was that the consistent majorities in favor of a single payer system for health. And the way that any kind of sensible but quite radical reform of the health system had been blocked year after year after year. Really going back to Nixon in the '70s. I thought it was for me a great evidence of that, that it's just not a democratic country at some level. It's not just about big money. I mean the fact that that Citizens United decision, I think again has transformed the power of money in political debate. And I think it has, you have got to the point whether you're a disappointed utopian or anything else, you do get to the point where you think, if we're becoming a sort of plutocracy or if the US is moving further down that road, how easy is that going to be to unwind? Because when you look at Latin America, you see once a country gets into that kind of, what you call a low, bad equilibrium where you're kind of stuck all directions keep taking you back to the bad place, it is really hard to get out of it. And I'm struck that even commentators like Martin Wolf who, you would disagree on even more things than you disagree with me on, has been the lead economic commentator for the Financial Times since I started in journalism in the late '80s. His latest book basically makes that argument that we are heading towards potentially a kind of Latin American type, very unstable but enduring situation, where we're veering from different kinds of populism but always with a kind of plutocratic base.

LAURA FLANDERS: Into which an enormous amount of new technology is suddenly descending. I saw Thomas Friedman write an op-ed in the New York Times this week where he talked about AI as the great transformer and liberator and accelerator and then he said, "For democracy." And I was like, "Well I don't see where the democracy is built into this."

STEPHANIE FLANDERS: Yeah, I mean I'm not sure dismay quite covers it actually. I think it's a bit worse than that.

LAURA FLANDERS: Well thanks, Steph. It's really been great talking to you. Well, let's just in the context of plutocracy, what did happen at Silicon Valley Bank? Can we talk about that for a minute? I mean to many, it looks like, oh there was like \$10,000 of help for indebted students and then a sort of endless blank check to at least the depositors, if not the investors in that bank. The depositors, some of whom look totally mad.

STEPHANIE FLANDERS: Yeah, it was an extreme version of the thing that you were talking about earlier, which is, once the financial system reacts badly to something, we kind of jump to secure it. You had a bank that actually was making money, unlike the banks in the 2007, 2008 with Lehmans. They weren't sitting on assets that were suddenly not worth anything or couldn't

be calculated. In fact, they were sitting on US treasury bonds and we knew exactly what they were worth and we knew they were going to be repaid. They were just worth a lot less. Their market value was a lot less than it had been a year ago. But they could have that could easily have worked its way through because they were also making a lot of money. These incredibly clever entrepreneurs had parked hundreds of billions of dollars in these non-interest or barely no interest deposit accounts, which any of us would just say, "Wow, you don't want to have all your money parked in one of those accounts." But somehow, they had all their money there and the bank was quite happily going out and investing it in these other things and making quite a lot of money, obviously, lending to people at much higher interest rates. The problem was because they were terribly switched on entrepreneurs, talking to each other on WhatsApp, seeing how many losses they were making or at least seeing the issue with these assets that had fallen in value. They were able to take above a billion dollars out of those accounts in 24 hours and the bank was going to go under. And I think the regulators, although it does look amazing now that there was a desire to ensure all of those accounts, even though a very tiny, tiny fraction of them was technically insured by the federal government. Because of the message it would send to all these other banks. And that's always the problem with bank runs because banks always are in the situation, however well-run they are, however high their capital base, however strongly regulated, they are always going to fail if everybody pulls their money out. That's just the way banks are designed. Now you could ask why on earth do we design banks like that? If you looked at a bank balance sheet and you were told that it was a normal company, you would've said this company is bust. But that is actually what banks are designed to look like. And I think that's a question, it's been an enduring question over the decades is why have we built our financial system on that model of banking on what they call the fractional reserve system?

LAURA FLANDERS: I'm very happy that you mentioned models because that's another place where I think I'm a dismayed utopian. At a global level you see a lot of discussion of, well, maybe the system that we've been running under has its flaws and we could think about some other ones. You see, a million people die in this country, lots of other people drop out of the labor market. People like me again, start to talk about mutual aid and cooperative economics and circular economics and community wealth building. And then the door on change just seems to close. And you see the same old kind of raising interest rates, weakening labor power, privatizing what could have been a great public asset like the vaccine. And we're kind of back to where we were, the discussion that we were just having. What tools do you think we haven't explored yet? What models do you think are out there? Aren't there just other things we could be doing? And why don't they get a chance, those experiments?

STEPHANIE FLANDERS: They do get an a chance at a lower level, but what you are saying is why do we still have the same sort of big macro tools? And you mentioned raising interest rates. I mean, the big thing that's happened with the inflation of the last year is even though wages have been going up, inflation has for most of the workforce, been going up faster. So it has actually,

there's been a bigger real wage cut for most people from the last year than at any time in the previous few years where actually, real wages have been creeping up. So I do think that it is a mistake to equate interest rate. And also-

LAURA FLANDERS: Even you pointed out on your podcast. There is another piece of that picture, which is corporate profits have not been shrinking or affected even a little. They've in fact been growing as a portion of corporate money. So there are other things we could be doing, but we clamp down on wages.

STEPHANIE FLANDERS: In the US context, I think you could be doing more on that because again, there's been a capture by the competition regulation. A lot of industries have become too concentrated and then that's where some of those profits have come from. So I would actually point you certainly to continental Europe as a place which did respond to COVID in a different kind of way, in a more risk sharing way. Certainly had a very different approach to supporting workers in their current jobs rather than giving them mere checks when they lost their jobs. If you look at what profitability, and of course it's one of those things in this in the financial system, people say, "Oh well, European companies aren't profitable enough." Certainly, one of the reasons European shares haven't gone up as much as US shares is because companies there don't have the same kind of profit margins as the US. So it is interesting. If you really think about it as a long game, the part of the world that has tended to be rather dismissed, you look at the sort of low potential growth rate, it's going to end up as a museum for the rest of the world or a place for people to visit and take pictures of. In many ways, Europe has ended up as a model for some of these things. Also as a model for some approaches to regulating privacy and data sharing, some of the new economy kind of issues that you were mentioning earlier. So it isn't all bleak, but I can see why it starts to look a bit bleak when you're in the US where there is just so little level playing field and the dominant model is so dominant.

LAURA FLANDERS: You have recently been reporting on another problem. I mean we used to think of it as a developing world problem. The problem that child bearers face. In this country, we have increasing problem with people, birth rates.

STEPHANIE FLANDERS: There's a demographic change that is happening everywhere and the US has been relatively late to it because they had such high immigration for many years. But one of the things that is true of Europe is you've had a slower birth rate for a long time. Italy, I think the labor force has been shrinking for some time. And the US say, has kind of avoided that for some quite a long period by having very high levels of immigration. And as a result of that, a sort of first round effect of quite high birth rate. That has really changed in the last 10 or 15 years. And I think it's like the people dropping out of the workforce. I think there's a lot of different causes for that. There's definitely issues around childcare, there's also just cultural

issues that people find, God knows it is, we are talking one person who's had kids, another one hasn't.

LAURA FLANDERS: You had two, makes up for me.

STEPHANIE FLANDERS: But God knows wonderful there they are, they change your life. And to many people, would you look at it and say, "Well that really limits my options. It's not something I want to do." So I think it's a mixture of things that the government can't necessarily fix, but there is certainly an element of it, which gets back to the real basics. The way you described the question is, modern society has not shown that it can reliably get its women to reproduce themselves in sufficient numbers. When we've reached this period, we have a more liberated world in many ways, but we haven't made it a one that is also a procreating world. And I think that seems to me quite a fundamental issue.

LAURA FLANDERS: You asked one of your guests recently, a sober-sounding gentleman who'd been covering China for a very long time. "What have you been wrong about in your career?" Although you said it more nicely than that. I will readily admit that I have been wrong about every tipping point that I thought would tip in my entire lifetime. What do you look back and think, "Wow, I really thought that was going to go differently."

STEPHANIE FLANDERS: Yeah, I mean there's some obvious ones where you just make the wrong calls and I definitely was was wrong on things like Brexit whether Britain would actually vote to leave the EU. But I think the depressing one, which is a rather big one, is I think I did always believe that arguments would out, that sort of rational argument would win and you just needed to get people in a room and have a conversation about something, and that with people having kind of shared desire to reach the truth. And I was lucky enough in various jobs I did early, early on, whether it's the Financial Times or the Treasury to actually believe it or not, be surrounded by people who were more or less motivated by that. And then you wake up sort of 10 or 20 years later and whether it's social media or some of the things to do with lobbying power and undemocratization, if you want to call it that, of the US, all of those factors just have left me rather lacking in confidence that rational argument actually wins the day. And of course, we see repeatedly examples where it hasn't.

LAURA FLANDERS: Well I guess that brings me directly to our final question, which is what do you think is the story the future will tell of this moment? What do you think people will say about what we did now?

STEPHANIE FLANDERS: Going back to having children, it's one of those ones I almost don't like to think about because it is easy to only see negatives and only see things breaking apart and systems under strain. And we also, clearly, we've not talked very much about the planet, but you

could have a very different political system and there'd be plenty of people who'd say we are still in crisis globally because of what's already happening on the environmental front. So I mean, I hope people won't look back in 50 or 60 years' time and say, "Wow, that was just when we'd had this quite long experiment with a certain kind of modern economy and modern world and internationalism and that's just broken apart. We've almost, we've gone back into a much more fractious era." I hope they won't think that, but I fear you know that we will look back and say that actually the last 20 years was the exception rather than what we're living in now.

LAURA FLANDERS: Thank you, Stephanie Flanders. And I truly do appreciate Stephanomics. I listened to it whenever there is an episode, I encourage people to check it out. It's been really a pleasure talking with you and I hope to see you and the kids and everyone soon.

STEPHANIE FLANDERS: I'm looking forward to it.

LAURA FLANDERS: Life, labor, production, reproduction, and limits. If economics is about the study of wealth, it's also the study of how societies act in relation to all of those things. And Stephanie's right when she points out that we in the US could do with taking a closer look at Western Europe. I've been looking at France where millions of people have been out in the streets for weeks battling with police over a presidential plan to push workers to work for two more years before receiving their hard-earned state pension. 'It's just not right', striking railway workers told Nobel literary laureate, Annie Ernaux when she met with them this march. "Just because people are living longer, by whose reasoning should we give two more of those years to our bosses?", one said. A second pointed out that, "In retirement, a lot of people try their hand at writing poetry. Instead, we're asking people to work longer and celebrating robots' abilities to spew out poetics. It should be the reverse." In the US too, it seems many of our debates are about limits, our limits when it comes to how many children we can raise on what kind of wages, what kind of life we can lead when we're working for so many hours every week. On how many lies we can live with in our textbooks or how much discomfort in our bodies. It all makes me think of economist Kate Raworth's discussion of planetary limits and Doughnut Economics. "We need to work within the limits of our climate," she points out. Well so too, we need to work within the limits of our lives. We'll talk about questions like this in the weeks and months ahead on this program and I hope you'll join me. Till the next time, stay kind, stay curious. For "The Laura Flanders Show," I'm Laura and thanks for joining us.

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