

THE LAURA FLANDERS SHOW

MARJORIE KELLY ON THE CAPITALISM CRISIS: “WEALTH SUPREMACY” IS KILLING US

LAURA FLANDERS: There's a problem we are not talking about yet, financialization. There's too much financial wealth in our system. This problem is as enormous as the fact carbon emissions are too large yet invisible. So writes Marjorie Kelly in her latest book, "Wealth Supremacy, How The Extractive Economy and The Biased Rules of Capitalism Drive Today's Crises." Not so long ago, we talked with Kelly, along with Edgar Villanueva, who wrote the forward to her book, but I've asked her back to dive in a little deeper to the themes of the book itself. Like white supremacy, she writes, wealth supremacy is both entirely obvious and oddly hidden, but it shows up just about everywhere, and it has been a big part of bringing us to this deadly brink. What is to be done? Well, Marjorie Kelly has some ideas about that too, and that's no surprise. She is a distinguished senior fellow at the Democracy Collaborative, which prides itself on being both a think and do tank in Washington DC and Cleveland, Ohio. Marjorie, glad to have you back on the program to talk a little bit more about this super important book and the ideas behind it.

MARJORIE KELLY: Laura, thanks for having me. It's a treat to be here.

LAURA FLANDERS: When you're talking about wealth, you're not talking about how much stuff you have or your property.

MARJORIE KELLY: Yeah, that's right.

LAURA FLANDERS: Or your fancy clothes or even just your clothes. You're talking about something else and you've already start, you mentioned portfolio. I mean, financial wealth is different.

MARJORIE KELLY: We're talking about financial assets, financial assets. You know, when I was a kid in the 1950s, financial assets and that's, you know, equities and bonds and other forms of debt, those were roughly equal in the US to GDP, right? Which is flows of income and spending.

LAURA FLANDERS: The gross domestic product.

MARJORIE KELLY: Right, gross domestic product. Now, financial assets are five times GDP, but we don't even count that as inflationary. We think this can grow infinitely forever to any size and we don't even view it as a problem, but it is.

LAURA FLANDERS: Why? I mean, isn't it good to have more wealth in the world?

MARJORIE KELLY: Sure, just like it's great to drive our cars where we want and put our thermostats high. I mean, it seems, it seems like a good thing, but in the aggregate, what happens is it's extracting too much from the rest of us. I mean, look at, for example, when the big tech firms hit a bump in the road on their share price, the first thing they did was throw thousands of workers out of jobs. And you know, there's a very direct correlation between share price and cutting costs, which generally means cutting labor. Debt is another form of it. Families are swimming in debt and we don't, we very rarely ask ourselves, who owns that debt? Who's receiving those payments? And it's a financial elite and it's big institutional investors. And so there's an extraction going on, and it's sapping the resilience of our society.

LAURA FLANDERS: How did you come to put your finger on this? I mean, you've been in this world for a long time. I don't mean in ages. I mean in years of studying the economy from different angles. When you came in, were you clear, financialization and what it was and why it was a problem?

MARJORIE KELLY: No, I wasn't at all. And you know, and Laura, this is why this conversation particularly excites me and interests me because you and I have been on a similar path. As journalists, we try to tell good news stories. We're trying to talk about all the brilliant visionaries out there trying to make things better, building worker owned firms and cooperatives and public banks. And there's so much great stuff happening. And for 30 years, that has been my focus. I have focused on the positive. I started Business Ethics magazine back in 1987, and I wanted to only tell positive stories about progressive business people and progressive investors. And I've met thousands of these people over the years, but we're losing ground faster than we're gaining it. And so as I approach, you know, I'm closer to the end of my career than the beginning of it. And I've asked myself, well, why does all of what we've been celebrating and doing and building, why does it not add up? Why are things getting worse and not better? And the reason is, we failed to touch the essence of the system. We failed to challenge the idea that you can maximize returns to shareholders and maximize gains to our portfolios. And that's the problem. And we've been trying to sort of fit ourselves into this paradigm, and I decided, I think we as a movement need to turn and challenge that paradigm. That's what I'm trying to do in this book.

LAURA FLANDERS: In the old days, when I studied economics, it was understood that a business as opposed to a farm or something, but it could be a farm, but moving from agrarian economies to industrial ones, from sort of peasants and lords to workers and bosses, we were told that the bosses would have to raise a certain amount of capital. They did that from their friends and relations. They called them stocks and shares. And that capital went into expanding the

business, hiring more people, investing in machines, perhaps even, who knows, maybe raising wages. Why doesn't that happen now? And what's changed?

MARJORIE KELLY: You know, we're not in the economy of the 1950s anymore. And we act as though we are, that finance is this productive force and it's building, it's building wealth. Well, for the most part, it's not. It's, there's so much financialization, so many financial assets, that they've become an extractive force. And a big piece of this is that we're not really distinguishing between productive investments and speculative investments. You know, when we're investing in the stock market, we're mostly just hoping that the value of those shares will rise. That money is not actually reaching companies and being used in productive ways. And that's true. We can see it with private equity too. They'll buy newspapers, for example. Buy old age homes or rural hospitals and they'll cut services and layer debt onto these companies and then write themselves a big check at the private equity firm. So that's extraction. That's not building wealth, that's siphoning off wealth. And we don't talk about investing that way. It's, but it's something new that has risen in our time.

LAURA FLANDERS: Are there things that happened that allowed those investors to keep so much of this money just for themselves rather than to reinvest it back in?

MARJORIE KELLY: This is where I bring in the concept of wealth supremacy because the whole system is designed to maximize financial income for those who have financial wealth, which is the wealthy, also institutional investors. So it's designed for that. And so the system drives inevitably toward this result. There's way too much financial wealth and too little wealth reaching the rest of us. And so we need to turn and look at the design of the system.

LAURA FLANDERS: Which is exactly what you do in the book. And what did you find?

MARJORIE KELLY: So what I do, I take apart the operating system of capitalism, which is, and I look at seven myths, really that drive it. You know, for example, the Myth of Maximization, the idea that no amount of wealth is ever enough. Bill Gates had \$10 billion, which is more money than any of us can even conceive of. What did he do? He invested it. Now he has more than \$300 billion. There's something kind of absurd about that. So much wealth in the hands of one person. But maximization, that's the principle around which it's built. There's the principle, the Myth of the Income Statement which says gains to capital, which we call profit, this lovely word, have to be always increased and gains to labor, which we call this horrid name, expense, have to always be decreased. Well, that's built into the income statement that every corporation uses. And I'll just mention one more, and that's the Myth of Materiality. And this is a principle of both corporate and financial accounting. And it says, you know, if it impacts capital, it matters. If it impacts ecological or social damages, if it creates damages, well, those don't really matter unless they impact capital. So it's this tautology of what I call capital bias. That capital is what matters. We're

aiming for more capital and nothing else really matters. That's the operating system of the economy.

LAURA FLANDERS: So the real world is immaterial to this world of wealth as held in stocks and shares and financial instruments.

MARJORIE KELLY: Well said. It's absurd when you look at it.

LAURA FLANDERS: How do people feel that in their daily life?

MARJORIE KELLY: Okay, so I have a financial advisor who came to me with an investment opportunity, not that I'm some big mucky muck, but I have a little bit of investments and it was investing in wind. And I read through the materials and I was, and I went to my advisor and I said, so am I actually investing in the productive growth and development of wind farms? Or am I investing in a basket of equities that is designed to mimic the behavior of wind development? And she couldn't tell me the difference. She didn't know. You couldn't tell from the materials, was I investing in a derivative which had no effective productive function, or was I actually investing in wind development? You know, no one had asked her that.

LAURA FLANDERS: Isn't it true that capital used to get fueled back into production?

MARJORIE KELLY: Investment can have a productive use. It's necessary. And it used to be largely productive, but I would say in the last couple of decades, it's become more and more extractive, more and more speculative. We need to understand the difference between productive investment and speculative investment. One economist we talked about, talked to us about this and said, we don't really make that distinction in our society, and we need to start making it.

LAURA FLANDERS: You use such an interesting term when you mention stocks and shares and portfolio, you know, things in your portfolio, you refer to them as debts. But when we watch our news, if we are on television and they give us our Wall Street report, the sort of culture around it is Wall Street going up, the value of all those things going up is a good thing. They don't say anything to do with debt as they report on the ups and downs of.

MARJORIE KELLY: Well, bonds. Bonds are debt, but there's other forms of debt too. I mean, bank debt, which investors own indirectly when they own bank shares. So there, so debt is threaded through the system. About two thirds of financial assets actually are debt and so.

LAURA FLANDERS: So the kind of debts we had during the financial crisis that we realized, oh, there was a trade going on in people's mortgages?

MARJORIE KELLY: Well, absolutely, right. And so when you financialize mortgages, basically it's no longer just a person taking out a loan so that you can pay off your house. I mean, you're turning it into this, you're bundling them, turning them into derivatives, selling them to investors. And lo and behold, it almost brought down the global economy. And the amazing thing, Laura, is that since then, American families have lost more than \$7 trillion in equity in their homes. There's been a lot of foreclosures, but guess who's buying up those foreclosed homes? It's big capital. They're stepping in and now they're financializing houses. And so they're bundling houses for investors. In Cincinnati, for example, one out of five houses are being bought by institutional investors. And how do they increase their profits? They neglect maintenance, they raise the rents, and they pursue, you know, aggressive evictions. Now, and here's an example of a solution. The City of Cincinnati, actually it was the Port of Cincinnati, stepped in and bought 200 homes back from private equity. They floated a bond to do it. So this is investing for the public good. They bought these 200 homes. They're gonna keep rent stable, they're gonna take care of neglected maintenance, and they're training renters to become home owners. And so it's bringing wealth back to earth in the hands of the community, broad-based wealth creation as the aim. So we can use the old tools of extraction to use them for the public good.

LAURA FLANDERS: You worked in this business. You followed the economy for years before you really realized that this was going on. And I think I, like you, look at people all around the country who are trying their best to change their circumstances and the circumstances of their communities. This is very remote. And yet you write in the book that this is as crucial as tackling white supremacy or environmental chaos or, you know, carbon emissions.

MARJORIE KELLY: Yeah, that's right. It's an overarching process of sapping the resilience of our society in many, many ways. And it's often hard to connect the dots just like it was with climate change. I mean, I don't know, did my particular trip to Minnesota contribute to the hurricane in wherever? You know, you don't know. You don't know precisely what connects to what, but you do know there's this large force, too much carbon in the atmosphere and it's causing all these crises. Well, the same thing is that there's too much financial abstraction going on, and it's causing the precariousness of workers. It's causing the indebtedness of families. I mean, 40% of jobs are now part-time, contingent, contract, gig, or self-employed. I mean, we don't even have that number, Laura. We have this very primitive number of unemployment which fails to tell us what's going on. So, I mean, why is, are so many working class whites driving toward the hard right and wanting to support, you know, what seemed to us kind of insane policies? Well, people are desperate. They're looking for the answer. They're looking for the problem, and they're being told the problem is immigrants. And we don't look at wealth as the problem. So, but when you start to see what's going on, you realize this is really one of the two major forces that's affecting our society. Let's talk for a second about white supremacy and racial inequity. I mean, we know for example, when the housing meltdown came in 2008, owners of color were more likely to lose their homes than others because they had been targeted for

predatory, for predatory lending. But it was also the entire economy that suffered. And I think that's kind of how it works. That white supremacy and wealth supremacy are entirely entangled and you can't solve for racial equity without also looking at this wealth inequity because it hits people of color hardest, but it's hitting, it's hitting all of us, including the planet. And you know, Martin Luther King was seeing this in late in his life. He was organizing the Poor People's March, and he was down South to support garbage truck workers. And it wasn't just people of color, it was, you know, garbage truck workers of any color. And so he, you know, and he said to Harry Belafonte, he said, you know, I think we're going to win the battle of integration. He, I think that we will get that. But he said, but I worry that I'm integrating my people into a burning house. And I think that's a perfect metaphor. I mean, you're trying to get people of color to have jobs or to own houses, but meanwhile, it's hard for anyone to own a house now with interest rates going up and prices so high. Jobs themselves are being destroyed. And so it's not enough to integrate into the economy as it is. We need to transform that economy.

LAURA FLANDERS: What is your prescription? You may not know all of it. And I think you quote Dr. King in the book where he also said, you don't need to know the pit, the layout of the entire staircase to take the first step.

MARJORIE KELLY: Right.

LAURA FLANDERS: I appreciate that. What are some first steps for us?

MARJORIE KELLY: There's two broad processes that we need. If we're gonna move to a more democratic economy, which is what we call it at the Democracy Collaborative. I mean, first you need a great ownership transition. We can't have the 1% owning everything, right? People need to own their homes. People need to own a piece of their jobs. You know, we should, it should be as common to own a piece of where you work as it is to own your own home. So we need broad-based ownership, and there's a variety of forms of that. Worker ownership, community housing. There's a second broad process that we need, and I call it building a next system of capital. And so what does that mean? And I convened a series of experts last summer and we talked about various pathways to a next system of capital. Forgiveness of debt is one of the, is one of the big pathways. And you can look at, for example, debt for nature swaps, which are happening in developing countries. You know, debt is forgiven and in return, they agree to preserve ecological areas. It's a wonderful and workable plan. It's different than just kicking the debt down the road. Also, you know, of course we need to finance the green energy transition, and there's money to be made there. You know, that's another key pillar. We need different kinds of banks. We need to reclaim the Federal Reserve. So there's a variety of very practical, maybe not immediately practical, but people know what the avenues are, what the pathways are. I think they're already out there, people are working on them. We can have an entire system of

sophisticated modern finance, which is designed to serve society and people and not just, and not just the wealthy.

LAURA FLANDERS: Do you think we'll get there?

MARJORIE KELLY: Let me parse that question into two parts. And first of all, is a democratic economy, is it feasible? And I would say yes, it is. And this is what the thousands of visionaries that you've been interviewing and I've been writing about. You know, people have, there's proof of concept. Worker owned firms are less likely to go out of business. They have, workers have doubled their retirement savings. These are successful firms. It works. Impact investing, there are so many brilliant models of impact investing. We know that these approaches are feasible. Now, can we scale up? Can we get there? Can we reign in finance? That's an open question and I don't think it's gonna be simple or quick. And I, you know, I close the book by saying, we don't start by asking, is transformation possible? We start by asking, is it necessary? I think that's the question where we begin.

LAURA FLANDERS: Your language of supremacy, bias, the divine right of capital, another phrase of yours. There's something in all of it that sounds spiritual and cultural to me. Is that in your background? Is that where you come from?

MARJORIE KELLY: Oh, that's an interesting question. Yeah, I'm a very spiritual person. I was raised Catholic, you know, very, very devoutly Catholic. My family was. I went to eight years of Catholic schooling. I had to step away from the church when I realized I couldn't say all the things that we were being asked to say. I've been studying Buddhism for many years. So yes, I do come from a spiritual place that we're all in this together. That's the nature of life on earth. That it's all one system. We're all in this. And to me, that's not a belief, it's a perception. I mean, physics will tell us. It's the truth.

LAURA FLANDERS: So how do we bring some of these multi gazillion wealth holders who are, some of them speeding off to other planets in what Naomi Klein calls their vanity rockets, over a sea of misery? How do we bring them back into some kind of connection or do we just let them all go to Mars?

MARJORIE KELLY: I mean, first of all, I don't think that we start with the biggest problem people. I like to make analogy to feminism back in the seventies, that you don't, you don't start a feminist revolution by arguing with your dad. He might be the one who needs to change, but that doesn't mean that you start there. You start by talking to each other. We need to come together. We need to have solidarity. We need to have a common narrative and analysis and understanding of what's happening. And I think a common understanding of pathways of change and we need that core nucleus of people who really are working for system change. I think that's where we

start. And hopefully, the narrative and the clarity that we can bring will be compelling enough that we will win more hearts and minds.

LAURA FLANDERS: You mentioned somewhere along the way that some of the biggest investors in private equity are pension funds. Those are pensions? Do we need to take our money if we have, if we're lucky enough to have a pension, out of the private markets like that? And if so, where do we put it?

MARJORIE KELLY: Yeah, I would love to see this conversation happen among institutional investors. I mean, what they have been flocking into private equity and it's the least transparent, the least accountable, the least responsible of the sectors. And I think that's, whether they would admit it or not, or even understand it yet, that's why they're flocking to it because there are fewer constraints on the financial extraction. But I think it's a conversation we need to have. I mean, do we demand more private equity? There are some who are doing that. They're saying, if you're gonna be in fossil fuels, you need to make a plan to wind down, for example. Or do we just pull out of private equity? I think that's a conversation that we need to have. I don't know that I would put the solution on the table in advance.

LAURA FLANDERS: There are other financial institutions one could put one's money in, credit unions, community development credit unions, cooperative banks, regional banks, state banks, public banks.

MARJORIE KELLY: You're absolutely right, Laura. I mean, I would love to see investments flooding into those kind of instruments that are building a democratic economy. And I think, I think you could certainly make the case that there's lower risk, there's more stable returns, not as spiky. And you might get great returns one year from private equity and then see it down the next year. And I think we need to ask ourselves, I mean, is maximum returns really what we insist upon if that is the force that's driving our fragility and ecological crisis, I think we need to ask ourselves that question.

LAURA FLANDERS: Marjorie Kelly, thank you so much for this book and for sitting down for another conversation about it.

MARJORIE KELLY: Laura, it's been fun. Thank you so much.

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