AFR Americans for Financial Reform

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The Dignity of Work

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Chairman Brown, Ranking Member Toomey and members of the Senate Banking Committee, thank you for inviting me to testify on the critical issue of Wall Street's impact on the dignity of work. My name is Lisa Donner, I am the executive director of Americans for Financial Reform, a coalition of more than 200 consumer, community, labor, civil rights, and other organizations dedicated to advocating for policies that shape a financial sector that serves workers, communities and the real economy, and provides a foundation for advancing economic and racial justice.

Today, and over the past several decades, too many of the laws and rules that structure finance have allowed Wall Street to profit and grow at the expense of almost everyone else. There are a variety of reasons for the growing inequality, yawning racial wealth gap, and economic vulnerability for tens of millions of people that plague our country, but policies that allow big finance to extract increasing amounts of wealth from workers, communities, and customers are a significant factor. We need to identify, understand, and change these rules if we are to build an economy that treats workers with dignity and delivers security and the opportunity to flourish for everyone.

These laws and rules have enabled banks, investment firms and Wall Street to secure a heightened level of power and influence over the entire economy. And they have encouraged financial firms and investors to deploy an increasingly complex array of financial instruments and products that add to their revenue and their control.

The era of financial deregulation and gradually increasing dominance of finance is generally believed to have begun in the late 1970s and early 1980s. Since that time, the size of the financial sector as a share of the economy has steadily grown until it is now double what it was in the 1970s. But that is only part of the story. It is increasingly the case that corporations that are nominally non-financial are also driven by Wall Street priorities and goals. Executives are incentivized to maximize short-term stock prices at the expense of workers and communities, including through the structure of their compensation. Many firms are directly owned or partly owned by Wall Street in the form of private equity or hedge funds. And companies can find financial speculation is more lucrative in the short term than producing goods or providing services. This set of dynamics is often referred to as financialization.

Financialization can lead to an upside-down situation where rather than the financial sector serving the real economy by allocating credit and capital, the real economy serves and is at the mercy of finance. Workers have lost out as financialization-driven shareholder primacy pushed layoffs and wage cuts to boost stock prices. More of the nation's wealth has become derived from financial engineering and market speculation, and these earnings and wealth accrue almost exclusively to the very wealthiest people. This has enriched financial companies and private funds and their executives but has put jobs and wages at risk and helped drive growing economic inequality and the widening racial wealth gap.

Along with and enabling these increases in economic power, the financial industry and financial executives have amassed more political power that shapes public life and public policy, designing and exploiting regulatory, legal, and tax loopholes that have further enriched themselves at the expense of workers and virtually everyone else.

Since the era of financial deregulation, we have also seen a steady stream of financial booms and busts driven by essentially fraudulent behavior in finance. Examples include the S&L crisis, the accounting scandals of the late 1990s and early 2000s connected to the stock market bubble, and most devastatingly the financial crisis of 2008. The boom-bust cycle has increased the wealth of those at the top positioned to gain from financial bubbles, while the financial collapse and its economic effects has devastated low- and middle-income families, with especially persistently negative impacts on Black and Latinx households.

The 2008 crisis was a consequence of financial speculation, massive use of complex and interconnected financial instruments, and the hyper-promotion of abusive and high-priced debt that produced bonuses and profits on Wall Street while putting families at risk. Millions of Americans lost their jobs, and millions of Americans lost their homes. Black and Latinx families experienced the steepest job losses and a disproportionate share of the foreclosures that destroyed household wealth. Now, while hundreds of thousands of people lost their lives during a pandemic that disproportionately impacted Black and Latinx families and tens of millions lost their jobs and economic security, America's billionaires prospered. The more than 700 U.S. billionaires' net worth climbed by $1.6 trillion between March 2020 and April 2021.[1]

The impact of Wall Street's boom-bust cycle on wealth has been increased by the fact that the Federal government has repeatedly prioritized bailing out Wall Street and asset owners over assistance to middle- and lower-income families affected by economic downturns. In the system we have created, the Federal Reserve can channel trillions of dollars into financial markets almost overnight to support the price of financial assets, while assistance to ordinary people facing foreclosure or unemployment comes more slowly and is limited and contested. We could see this process in the 2008 bailout, where in addition to the Congressionally provided TARP funding the Federal Reserve independently provided over $1 trillion in credit to Wall Street for over six months to reverse the impact of the financial collapse on the markets, even as inadequate economic stimulus and insufficient foreclosure relief programs resulted in millions losing their homes and in enduring losses of wealth.

[1] Americans for Tax Fairness and Institute for Policy Studies. "Billionaire pandemic wealth gains of 55%, or $1.6 trillion, come amid three decades of rapid wealth growth." April 15, 2021.

This pattern emerged again in March 2020, when the Federal Reserve independently reactivated all of its 2008 emergency funding programs for Wall Street, and then Congress in the CARES Act provided them massive additional firepower to provide unprecedented support for the entire corporate credit market. The liquidity boost provided by these actions has been a major contributor to the tremendous growth in stock prices and the growth in the wealth of billionaires we have seen over the past year. The American Rescue Plan Act and the infrastructure and jobs programs now being developed and discussed include many useful and important correctives to this pattern; these features need to be enhanced and passed.

This testimony discusses the rise in the size and scope of the financial sector and the diversion of resources from the real economy and from workers' compensation, the financialization of the rest of the economy and the distorting incentives that undermine workers, how these dynamics drive economic and racial inequality, the financial sector's role in consolidation, which concentrates the economy in fewer corporate hands to the detriment of workers, how the financial industry's considerable political clout distorts public policy debates and puts Wall Street interests above the public interest. It also touches on a few commonsense policy approaches to rebalance the system.

1) The outsized growth of the financial industry

The size of the financial industry has ballooned over the past 50 years, but there is little evidence that this surging scale and scope has provided much additional benefit to the economy at large. To the contrary, there is considerable evidence that the swollen financial industry has distorted the real economy, reduced investment in productive economic activity that would sustain good jobs, undermined economic growth, and contributed to America's growing economic and racial inequality.

The financial sector represents a greater portion of the overall economy, a larger slice of corporate profits, and a bigger proportion of workers than it did in the late 1970s (see Figures 1 to 3). Although finance's growing share is in part due to the decline in the manufacturing sector, finance has grown faster even than other service sectors.[2]

The financial industry share of GDP rose from about one-seventh of the economy in the mid-1970s to over one-fifth of the economy in 2001, dipping after the financial crisis before rebounding again.[3] The financial industry's corporate profits exceeded 15 percent of all profits only 3 times from 1940 to 1986, before soaring to over 20 percent of profits in 1990 and only dropping back below 15 percent in 2008.[4]

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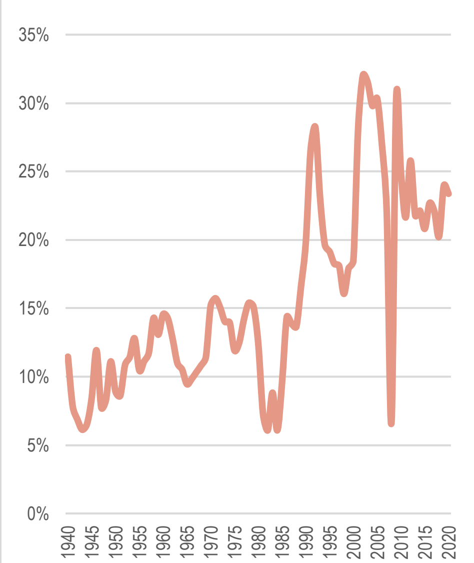
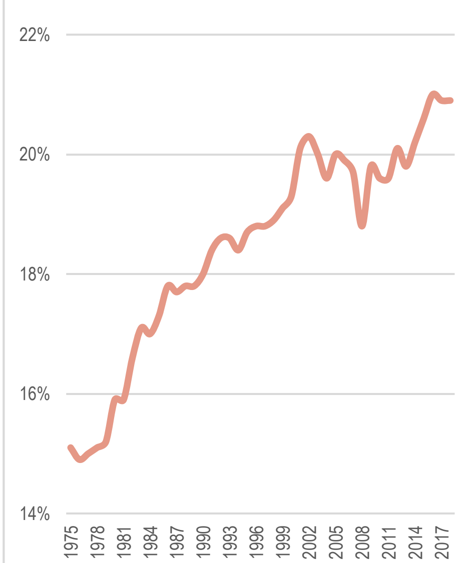
[2] Gennaioli, Nicola, Andrei Scleifer, and Robert Vishny. "Finance and the preservation of wealth." *Quarterly Journal of Economics*. Vol. 129, No. 3. September 2014 at 1222.
[3] Economic Report of the President 2007. Finance, insurance, and real estate value added as share of GDP. Table B-12: Gross domestic product by industry, value added, in current dollars and as a percent of GDP; Economic Report of the President 2020. Table B-12: Gross domestic product by industry, value added, in current dollars and as a percent of GDP.
[4] Bureau of Economic Analysis (BEA). National Income and Product Accounts (NIPA). Corporate Profits by Industry. Table 6.16. Excludes Federal Reserve bank profits. Available at www.bea,gov.

Fig. 1: Financial Profits Share of All Corporate Profits



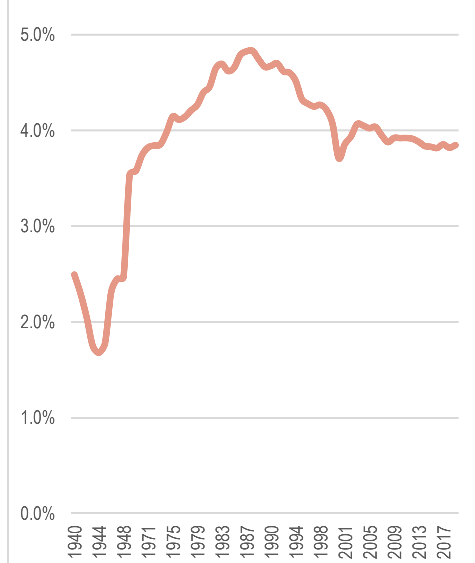
Source: BEA

Fig. 2: Financial Industry Value Added Share of Real GDP



Source: Econ. Rept. President 2007, 2020

Fig. 3: Financial Industry Share of Total Employment



Source: BEA, excludes real estate.

The expansion of the financial industry has also increased the number of highly-educated employees who perform increasingly complex roles for more lucrative compensation.[5] The share of people working at banks, investment firms, stock and commodity brokerages, insurance companies and other financial firms (excluding real estate) doubled from under 2 percent in the mid-1940s to about 4 percent today (see Figure 3).[6] In 1940, only one out of every 500 workers was a stockbroker, but by 2018, one out of 145 workers were employed by stock and commodity brokerages.[7] The high profits and compensation in the financial industry has attracted an outsized portion of human talent that formerly might have gone to other uses — like corporate management, engineering, or medicine.[8] As the Bank for International Settlements observed "finance literally bids rocket scientists away from the satellite industry. The result is that people who might have become scientists, who in another age dreamt of curing cancer or flying to Mars, today dream of becoming hedge fund managers."[9]

Although the financial industry fills important economic roles in supplying credit, allocating capital, safeguarding household savings, and more, an ever-expanding financial sector can actually reduce economic output as more resources are pulled from other uses to financial engineering, speculation, fee taking and wealth accumulation by a small number of finance executives. A cross national study

[5] Glode, Vincent, Richard C. Green, and Richard Lowery. "Financial expertise as an arms race." *Journal of Finance*. Vol. 67, No. 5. October 2012 at 1723.
[6] BEA NIPA. Full-Time Equivalent Employees by Industry. Table 6.5. Available at www.bea,gov.
[7] *Ibid.*
[8] Bolton, Patrick, Tano Santos, and Jose A. Scheinkman. NBER. "Cream Skimming in financial markets." NBER Working Paper No. 16804. February 2011 at 2 and 33 to 34.
[9] Cecchetti, Stephen G. and Enisse Kharroubi. Bank of International Settlement. "Reassessing the Impact of Finance on Growth." BIS Working Paper No. 381. July 2012 at 1 o 2.

by the Bank for International Settlement found that when the financial sector's employment exceeded 3.5 percent, it had a negative impact on growth.[10]

The study concluded that "with finance you can have too much of a good thing. That is, at low levels, a larger financial system goes hand in hand with higher productivity growth. But there comes a point — one that many advanced economies passed long ago — where more banking and more credit are associated with lower growth."[11] The U.S. economic growth rate declined during the financialization era, and so did that of other major industrialized nations where financial markets have swelled.[12]

The creation and evolution of new financial products and instruments like CDOs, asset-backed securities, etc., have increased the size of the financial sector, and the number of transactions, and they have contributed both to building wealth for executives in finance, and to financial risk – as evident in the 2008 financial crisis. But it is not at all clear that they have had a positive impact on economic development. As University of Chicago finance professor Luigi Zingales noted in a 2015 paper "I am not aware of any evidence that the creation and growth of the junk bond market, the option and futures market, or the development of over-the-counter derivatives are positively correlated with economic growth."[13] He also noted that there has been no shortage of incentives to hunt for such growth, making its absence particularly striking.

Much of the activity of the financial sector is redistributing the ownership of assets not additional investments in economic activity. As Nobel Laureate Joseph Stiglitz observed, "most of these resources are not spent in raising new funds but in rearranging ownership claims on society's resources. They are a part of the quest for rents. They affect who gets the returns to society's productive assets, not which investments get made. Resources devoted to gambling—and to short-term speculation in the stock market—could be devoted to more productive uses."[14] The conservative American Compass think tank concurred with this assessment in a recent essay:

> Most of what we call investment today is the acquisition of an asset. When a private equity firm buys a company, it has not invested, it has traded a pile of money for a pile of equity. This confusion over the nature of investment is pervasive among economic policymakers and commentators, has bled into the popular culture, and threatens the nation's future prosperity. Actual-investment, by which I mean the allocation of capital toward the development of new productive capacity—the building of structures, the installment of machines, the creation of intellectual property—has been weakening in America for decades now. By contrast, what we often call investment, and what seems constantly to expand as a share of our economic activity, is merely the trading of assets for profit and power.[15]

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[10] *Ibid.*
[11] *Ibid.* at 1.
[12] Palley, Thomas I. The Levy Economics Institute of Bard College. "Financialization: What It Is and Why it Matters." Working Paper No. 525. December 2007 at 9.
[13] Zingales, Luigi. National Bureau of Economic Research. "Does Finance Benefit Society?" Working Paper No. 20894. January 2015 at 11.
[14] Stiglitz, Joseph E. "Using tax policy to curb speculative short-term trading." *Journal of Financial Services Research*. Vol. 3. 1989 at 109.
[15] Cass, Oren. American Compass. "We're just speculating here." March 25, 2021.

2) The financialization of non-financial firms

Beginning in the late 1970s, Wall Street drove more companies to reorient their businesses towards prioritizing stock price increases along with increased shareholder payments and share buybacks. These strategies frequently relied on cost cutting to boost earnings which meant less investment in capital improvements and ratcheting down on labor costs, through offshoring, layoffs, and wage cuts. They recast workers as costs to be managed and diminished rather than essential contributors to an enterprise.

These changes were accompanied by an increased reliance on debt and leverage to generate outsized profits on investments, including the rise of leveraged buyouts by private equity firms. Non-financial firms also substantially increased their financial activities and financial orientation as well as launching their own financial business lines.[16]

At some apparently 'non-financial' firms, these financial business lines began to eclipse the real economy operations, so revenues and profits flowed from investments and financial holdings instead of manufacturing or sales or non-financial services.[17] For example, the retailer Sears began to make more of its income from its Discover credit card and General Motors auto lending business GMAC grew into the mortgage lender Ally Financial (which collapsed into bankruptcy during the subprime mortgage meltdown).[18] Economist Thomas Palley describes the consequence of these changes as "corporate behavior… becom[ing] increasingly dominated by and beholden to financial markets."[19]

Corporate leveraged lending and private equity leveraged buyouts, Companies and private equity firms have used debt to increase leverage, fund dividends and buybacks, and generate outsized returns on their investments, but these hyper leveraged investments can create bubbles and also lead to bankruptcies.[20] Corporate sector debt is now at a record level as a proportion of GDP, and private equity takeovers rely on leveraged buyouts that have been financed by more than 50 percent debt over the past five years.[21]

This increase in high-risk debt has repeatedly been singled out by analysts and regulators as a threat to economic stability. The last three financial stability reports by the Federal Reserve Board have all highlighted this type of leveraged business debt as a key economic vulnerability.[22] High levels of leveraged lending pose potential macroeconomic threats, including amplifying recessionary downturns as companies struggle to service their debt loads. Increasing defaults could contribute to

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[16] Epstein, Gerald. University of Massachusetts. Political Economy Research Institute. "Financialization: There's Something Happening Here." Working Paper No. 394. August 2015 at 7.
[17] Palladino, Lenore. Roosevelt Institute. "Corporate Financialization and Worker Prosperity: A Broken Link." January 2018 at 10 to 11.
[18] Lin, Ken-Hou, Donald Tonaskovic-Devey. "Financialization and U.S. income inequality, 1970-2008." *American Journal of Sociology*. Vol. 118, No. 5. March 2013 at 1293; Reindl, J.C. "Ally Bank gets back into mortgages, but not the subprime ones." *Detroit Free Press*. December 12, 2016.
[19] Palley (2007) at 18.
[20] Epstein (2015) at 7.
[21] American Investment Council. "Private equity trends Q3 2020: Private equity continues to navigate the pandemic." 2020.
[22] Board of Governors, Federal Reserve System. "Financial Stability Report." 2020 and prior years.

instability in the financial system due to losses experienced by banks and investors, along similar lines to the ways the subprime mortgage meltdown stressed the financial system in 2008.[23]

Shareholder primacy and short-termism: The over-focus on short term shareholder value and re-orienting corporate strategies to boost short-term stock prices as the preeminent corporate mission sacrifices other important stakeholders, primarily workers and the public, to facilitate wealth accumulation by shareholders.[24] It has led companies to cut costs, including labor costs, reduce capital investments, and increase shareholder payouts.[25] The hostile takeover wave beginning in the 1980s also encouraged companies to severely cut workforces and wages to boost share prices and stave off takeover bids.[26] Professor Gerald Epstein has noted that "there is significant empirical evidence that 'short-termism' and other aspects of financial orientation have negative effects on workers' well-being, productivity and longer-term growth."[27]

Wall Street analysts have even downgraded the ratings of firms that have announced wage increases, punishing firms that give workers a share of the earnings and profits they helped generate. For example, Delta Airlines share price fell nearly 4 percent in 2019 after a stock analyst switched Delta from a "buy" to "neutral" because the company announced wage increases.[28] In 2017, Bank of America Merrill Lynch downgraded Chipotle because it was raising scheduled hours for its staff instead of cutting hours and reducing labor costs, driving the company's share price down 2 percent the next day.[29]

Hyped up shareholder payouts and sky-high executive compensation harm workers and long-term economic capacity: Driven in part by Wall Street demands for returns, shareholder payouts — share buybacks and dividends — have soared in recent years, at the same time as increasing executive compensation through stock-based pay packages. This takes dollars that could be invested in worker wages and benefits, processes and materials to increase productivity, or research and development and puts them in the pockets of shareholders and executives instead.

Share buybacks enable companies to use earnings to artificially boost share prices by buying up shares, reducing the number of shares on the market and increasing the value of each share. Hiking dividends also passes earnings onto shareholders and further heightens shareholder return, which is the gain (or change) in share prices plus stock payouts like dividends.

Share buybacks on the open market were essentially considered market manipulation before a 1982 deregulatory rule change by the Securities and Exchange Commission (SEC),[30] According to an analysis by Erdem Sakinc prepared for Senator Baldwin, in 1981 before the change, "the S&P 500 spent approximately two percent of its profits on buybacks. In 2017, those same companies spent 59

[23] Kaplan, Robert. Federal Reserve Bank of Dallas. "Corporate Debt as a Potential Amplifier in a Slowdown." March 5, 2019.
[24] Epstein (2015) at 8 and 9.
[25] *Ibid.* at 8.
[26] Palladino (2018) at 8.
[27] Epstein (2015) at 12.
[28] Van Voorhis, Scott. "Delta shares dive amid analyst downgrade over rising costs." *The Street.* October 3, 2019.
[29] Frank, Thomas. "Chipotle downgraded by Bank of America on concerns that labor is still too expensive." *CNBC.* October 19, 2017.
[30] 17 C.F.R. § 240.10b-18.

percent of their profits on buybacks."[31] Before the pandemic, total payouts to shareholders by S&P 500 companies (buybacks and dividends) had more than tripled between 2009 to 2017, from about 2 percent of GDP to nearly 7 percent.[32] The 2017 Tax Cuts and Jobs Act (TCJA) set off a particularly massive increase in stock repurchases. The legislation provided major tax cuts and benefits to large corporations, such as a lower corporate tax rate and an incentive to repatriate offshore cash. In the first two months after the tax cut passed, companies on the S&P 500 made nearly $160 billion in share buybacks but only committed $1.5 billion to wage increases.[33] Goldman Sachs noted that share buybacks were the "dominant" source of all demand for stocks in 2019 — far above mutual funds, exchange traded funds, or households.[34] A forthcoming paper from University of Massachusetts economists Lenore Palladino and William Lazonick finds that U.S. companies spent $6.3 trillion on stock buybacks between 2010 and 2019.

When companies divert increasing resources to rewarding shareholders and executives it harms workers and undermines long-term economic growth. University of Massachusetts economist William Lazonick has argued that these shareholder distributions and lavish executive pay have been a driving factor in economic inequality as businesses have shifted from "'retain-and-reinvest' to 'downsize-and-distribute.'"[35]

In this vein, a 2021 American Compass study found that the number of companies that extracted value from their firms including shareholder payouts faster than they invested in new capital expenditures had risen from only 6 percent of companies before 1985 to nearly half (49 percent) of companies in 2017 (based on market capitalization).[36] The study concluded that "the effect of these corporate decisions has been to turn the relationship between the real economy and the financial markets on its head, so that it is now the former that seems to be serving the latter."[37] The rise of debt financing and share buybacks, key elements of financialization, was associated with a 12 percent reduction in the number of workers at the biggest U.S. companies from the mid-1980s to 2008.[38] And a 2020 study found that increasing shareholder primacy is associated with stagnant U.S. wages.[39]

It is also notable that buybacks are increasingly funded by debt, even as amounts that go to buybacks are exceeding amounts being retained for investment. In 2019 Goldman Sachs was projecting close to a trillion dollars in buybacks that year, with increases in buybacks substantially higher than increases in investments in capital, or research and development, and that funding was coming from

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[31] Office of Senatory Baldwin, Tammy. "Reward Work Not Wealth." Senator Baldwin Staff report. 2019 at note 47 at 27.
[32] S&L Financial and Americans for Financial Reform (AFR) calculations. S&P 500 represent firms in the index during the year.
[33] Wartzman, Rick and William Lazonick. "Don't let pay increases coming out of tax reform fool you." *Washington Post*. February 6, 2018.
[34] Matthews, Chris. "Buybacks are the 'dominant' source of stock-market demand, and they are fading fast: Goldman Sachs." *MarketWatch*. November 9, 2019.
[35] Lazonick, William. Brookings Institute Center for Effective Public Management. "Stock buybacks: From retain-and-reinvest to downsize-and-distribute." April 2015.
[36] Cass, Oren. American Compass. "The Corporate Erosion of Capitalism." March 2021 at 1 to 2.
[37] *Ibid.* at 6.
[38] Tomaskovic-Devey, Donald and Ken-Hou Lin. "Financialization: Causes, inequality consequences, and policy implications." *North Carolina Banking Institute*. Vol 167. 2013 at 184.
[39] Palladino, Lenore. "Financialization at work: Shareholder primacy and stagnant wages in the United States." *Competition and Change*. June 2020.

a continuing rise in debt and leverage[40] In 2017, a third of stock buybacks were being financed with borrowed money, and in particular with leveraged loans, contributing to corporate debt being at an all-time high. The growing volume of leveraged loans is a source of instability for the financial system.[41]

The same pattern with regard to shareholder distributions, but on a still greater scale, is evident among financial firms in particular. The six largest systemically significant banks substantially shifted revenues to shareholder distributions, from about 5 percent of gross revenues in 2009 to 35 percent in 2019 — even higher than the peak 25 percent of revenues before the financial crisis.[42]

These distributions have additional implications at banks. Dividend payments distribute capital to shareholders that could instead be used to support the economy, which is especially important during this crisis period. Every credit extension by banks — including forbearance on consumer loans during a period of unprecedented economic shutdowns — is supported either by private capital or by government support from the public. At the end of the first quarter of 2020, when the economic impact of the pandemic was rapidly and disastrously unfolding, big banks committed to paying out some $13 billion in shareholder dividends.[43] By permitting banks to pay out those dividends, regulators were effectively allowing banks to transfer funds to wealthy shareholders and leaving the public purse to fill in the gaps. U.S. banking regulators proposed a new rule during the pandemic that would have the effect of facilitating bank capital distributions during the crisis period.[44]

The $265 billion the biggest banks diverted to shareholders during 2018 and 2019 could have been available to support trillions in additional lending to aid the economy during the pandemic. Allowing big banks to pay record levels to wealthy shareholders while providing public support to these banks during the pandemic is a striking example of privatizing gains and socializing risks and losses. During good times, banks and other companies can shift all their profits to shareholders but during economic crises they receive public support.

Although the proponents of shareholder primacy suggest that everyone benefits from an economy primarily oriented towards the stock market, in addition to draining resources from other investments which would benefit workers and the long-term health of a firm, the overwhelming majority of shareholder benefits go only to the very richest people, and that proportion has been increasing during the age of financialization.

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[40] Cox, Jeff. "Companies are ramping up share buybacks, and they're increasingly using debt to do so." *CNBC*. July 30, 2019.

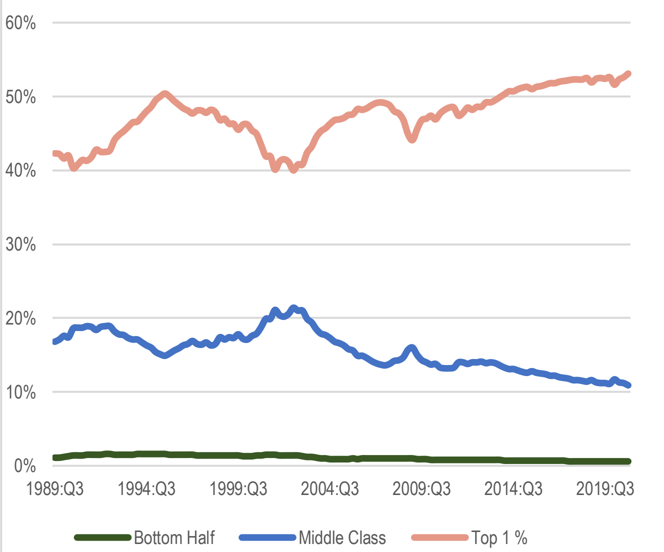
[41] Steven Pearlstein, Steven. "Beware the 'mother of all credit bubbles.'" *Washington Post*. June 8, 2018; Greene, Megan and Dwight Scott, "Do leveraged loans pose a threat to the US economy?" *Financial Times*. February 11, 2019; Chappatta, Brian, "Leveraged-loan protections go from bad to worse." *Bloomberg*. January 24, 2019.

[42] S&L Financial and AFR calculations. The "Big Six" banks are the six largest systemically significant U.S. banks -- JP Morgan Chase, Bank of America, Morgan Stanley, Goldman Sachs, Citigroup, and Wells Fargo

[43] Represents dividend payments for Q1 2020 by banks with over $250 billion in assets, from their quarterly earnings. Specific banks are the Big Six (Bank of America, Citigroup, Goldman Sachs, JP Morgan Chase, Morgan Stanley, and Wells Fargo) plus Bank of New York Mellon, Capital One, PNC Financial, State Street, Truist Financial, and U.S. Bankcorp.

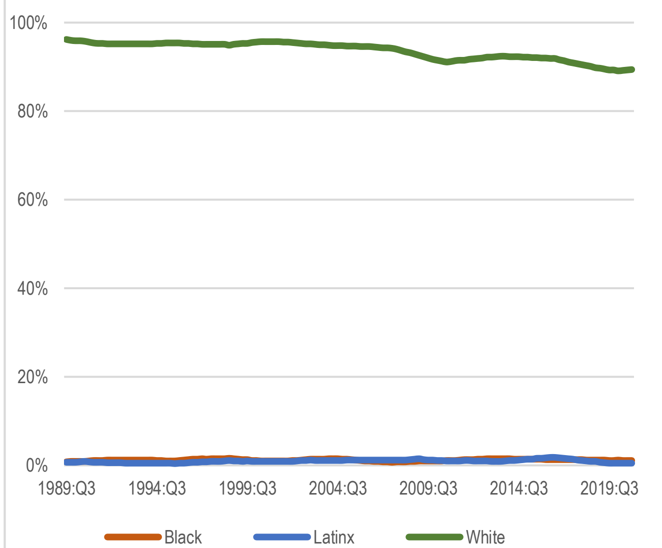
[44] 12 CFR 324.2. March 20, 2020.

Fig. 4: Share of Stock and Mutual Fund Value by Net Worth



Source: FRB Distributional Financial Accounts

Fig. 5: Share of Stock and Mutual Fund Value by Race



Source: FRB Distributional Financial Accounts

Policy makers and the press often confuse the health of the stock market with the health of the economy, but the wealthiest top 1 percent of households control more than half of all stock market and mutual fund value, the middle class (families in the 50th to 90th percentile of household wealth) hold only 11 percent of this value and the remaining half of households combined hold only 1 percent of stocks and mutual funds (see Figure 4).[45] Black and Latinx families have received almost none of the increase in stock market value. These Black and Latinx families hold only 1 percent of the stock and mutual fund value, a figure that has not budged in 30 years (see Figure 5).[46] To put this in perspective, if the value of the stock market rises by $1 trillion, each of the richest 1 percent of households gain $414,000 while each of the families in the remaining half half get only $156.

This wealth inequality has also been heightened by the extraordinary levels of executive pay. The highest paid corporate executives have been getting richer from reorienting their companies to boost short-term stock prices instead of long-term investments.[47] Executives now receive the bulk of their compensation from stock awards and stock options — often more than 80 percent — which incentivizes them to take actions to bump share prices for their own benefit.[48] In 2018 research from then SEC Commissioner Robert Jackson showed that "executives personally capture the benefit of the short-term stock-price pop created by the buyback announcement."[49] A 2020 paper by

45 Federal Reserve Board (FRB). Distributional Financial Accounts.
46 FRB. Distributional Financial Accounts.
47 Dünhaupt, Petra. Berlin Institute for International Political Economy. "The effect of financialization on labor's share of income." Working Paper No. 17/2013. 2013 at 8.
48 Lazonick, William. "Profits without prosperity." *Harvard Business Review*. September 2014.
49 Securities and Exchange Commissioner Jackson Jr., Robert J. Jackson. [Speech]. "Stock Buybacks and Corporate Cashouts." June 11, 2018.

Palladino similarly found that corporate insiders like executives are more frequently selling their own shares and profiting during corporate buybacks.[50]

When executives decide to buy back shares, it effectively increases not only the company's share price but also their own compensation and the value of their own stockholdings.[51] The TCJA tax cut proceeds were used for shareholder payouts, and at the same time a substantial portion of the corporate tax cut benefits went to the most highly-paid executives. A 2021 study by a Grinnell College economist found that upwards of one-fifth of the corporate tax breaks were dedicated to hiking compensation for the five most highly paid executives at a firm.[52]

Executive compensation has reached extraordinarily high levels and has risen faster during the financialization era and massively outpaced growth in workers' salaries and wages. The gap between CEO pay and typical workers' earnings has gone up 10-fold over the past 50 years. In 1978, the CEO-worker pay ratio was 31-to-1, but by 2019 it reached 320-to-1 according to the Economic Policy Institute.[53] At least 50 S&P 500 companies paid their CEOs more than 1,000 times more than typical workers in 2019.[54] In 2019, CEOs received average realized compensation of $21.3 million, a $2.6 million pay increase over 2018.[55]

During the pandemic, executive compensation continued to soar even as tens of millions of workers lost their jobs, contributing further to increasing economic inequality. Executives at companies like Boeing and Hilton Hotels slashed jobs and took substantial corporate losses but still took home over $21 million and $55 million, respectively.[56] Executives at 18 companies received a combined $135 million weeks before they declared bankruptcy in 2020 and laid off tens of thousands of low-wage workers, most earning less than $29,000 annually.[57] Former Labor Secretary Robert Reich described the executive payouts during and economic catastrophe as "the logical consequence of our total embrace of shareholder capitalism, starting with the corporate raiders of the 1980s, to the exclusion and sacrifice of all else, including American workers."[58]

3) Financialization drives economic and racial inequality

The growth of the financial sector, and Wall Street's increasing impact on our national economy, is a central driver of America's persistent and growing economic and racial inequality. The past three decades have seen a massive upward redistribution of wealth in this country coinciding with the

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50 Palladino, Lenore. "Do corporate insiders use stock buybacks for personal gain?" *International Review of Applied Economics*. Vol. 34, Iss. 2. 2020.
51 Epstein (2015) at 8.
52 Ohrn, Eric. Grinnell College Department of Economics. "Corporate Tax Breaks and Executive Compensation." February 2021.
53 Mishel, Lawrence and Jori Kandra. Economic Policy Institute. "CEO Compensation Surged 14% in 2019 to $21.3 million." August 18, 2020.
54 Anderson, Sarah and Sam Pizzigati. Institute for Policy Studies. "Executive Excess 2019: Making Corporations Pay for Big Pay Gaps." September 2019.
55 Mishel and Kandra (2020).
56 Gelles, David. "C.E.O. pay remains stratospheric, even at companies battered by pandemic." *New York Times*. April 24, 2021.
57 Bhattaral, Abha and Daniela Santamariña. "Bonuses before bankruptcy: Companies doled out millions to executives before filing for Chapter 11." *Washington Post*. October 26, 2020.
58 Gelles (2021).

increasing financialization of the economy. The rise in financial extraction, cost cutting-driven layoffs and wage suppression to boost stock prices, and increases in Wall Street and other executive pay has reduced the earnings and wealth accumulation of working families and driven a bigger wedge between the haves and have-nots.

Since 1989, there has been a great transfer of wealth ownership from the middle class (families in the 50th to 90th percentile of household wealth) to the very wealthy top one percent of households (see Figure 6).[59] The share of nation's wealth held by the middle class shrank over this period by one-fifth, dropping from 35 percent (slightly less than their 40 percent share of households) to 28 percent. Families in the bottom half of the wealth distribution (50 percent of all households) started with very little wealth, and have seen their share of the nation's wealth cut in half, dropping from about 4 percent to only 2 percent of the nation's wealth.

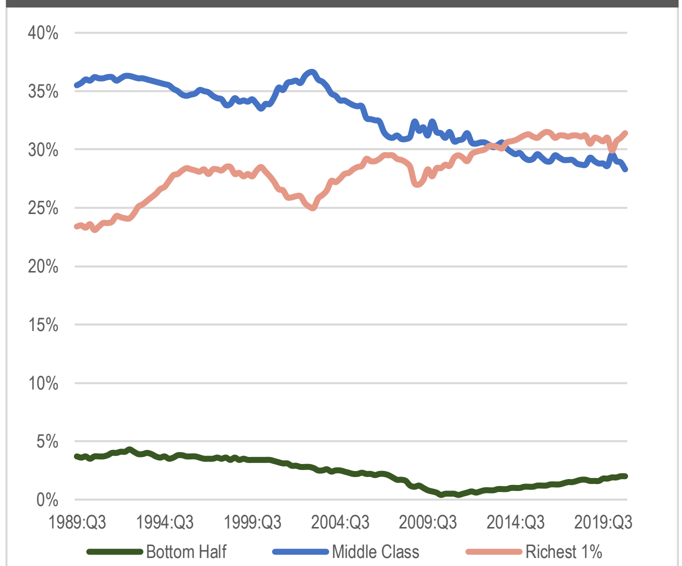

Fig. 6: Share of Wealth by Household Net Worth

Source: FRB Survey of Consumer Finances

The great beneficiaries of this change have been the top 1 percent of wealth holders — today, those worth over $11 million. This group has seen their share of national wealth grow by more than one-third, from less than one-fourth of the nation's wealth to nearly one-third (23 percent to 31 percent). To put this in concrete dollar terms, over the past three decades the wealthiest 1 percent have gained over $10 trillion in additional wealth by grabbing a greater share of the pie than they had in 1989. This wealth was redistributed from the middle class and the bottom half of families to the very-wealthy over the past three decades.

The tremendous headwind of upward wealth distribution has also contributed to the long-term failure to make progress on America's historic racial wealth inequalities, most notably the Black-white and Latinx-white wealth gap. The gap between Black and white wealth today is essentially the same as it was before the civil rights movement — a depressing failure to make progress on economic equality.[60] Typical white families have had about 8 times the net worth of typical Black and Latinx families for the past three decades (see Figure 7).[61] The typical Black household still has only about one-seventh of the wealth of the typical white household, a ratio that has remained similar for some 60 years.

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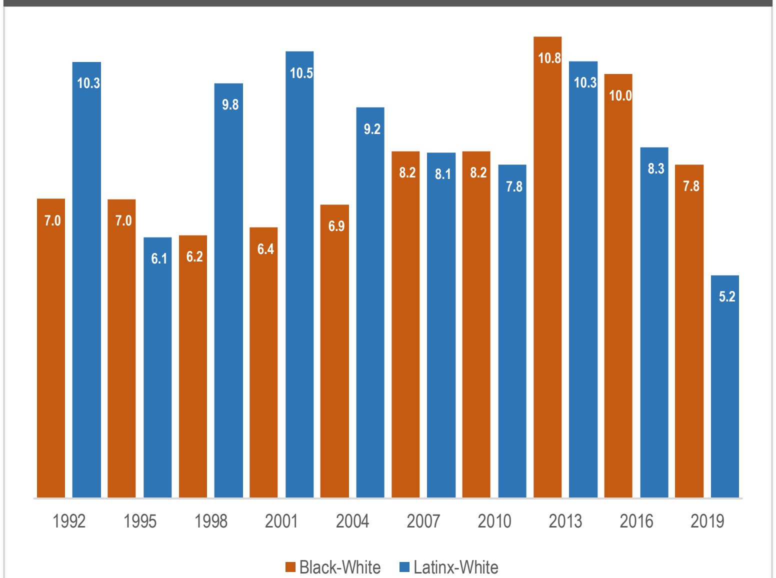
[59] FRB. Survey of Consumer Finances. 2020.
[60] Kuhn, Moritz, Moritz Schularick, and Ulrike I. Steins. CESifo. "Income and Wealth Inequality in America, 1949-2016." Working Paper No. 6608. June 2018.
[61] FRB. Survey of Consumer Finances. 2020.

Financialization is a big part of the growing gulf between the richest and everyone else. The financial orientation of non-financial firms has led to offshoring, downsizing, layoffs, and wage cuts while rewarding executives and shareholders with ever bigger payouts. The growth in the value of the stock market and other Wall Street holdings means that more of the national income comes from investment earnings that are generally held by the richest households and concentrated amongst the wealthiest 1 percent.[62] A 2013 study by University of Massachusetts-Amherst and University of Texas-Austin professors concluded that "financialization is at its root a system of income redistribution which favors the finance sector over the non-finance sector, financial investments over investments in production, and shareholders and top executives over workers and middle-class citizens."[63]

Fig. 7: Racial Wealth Gap Between Median Households
(multiple of white wealth v. Black & Latinx wealth)



Source: FRB SCF

Another study by the same authors found that the increased reliance on earnings through financial channels — the financialization of non-financial firms — led to 58 percent of the decline of workers' share of national income, 10 percent of the rise in executive compensation, and 10 percent increase in income wage inequality between 1970 and 2008.[64] Another paper by the same authors found that deregulation-driven financialization shifted $6.5 trillion in profits and earnings to the financial sector between 1980 and the 2008 financial crisis which the authors argue was "a tremendous transfer of income and wealth from both households and the real economy to financial sector firms, their owners, and, to some extent, their employees."[65] A 2013 study of 13 advanced economies found that increasing financialization, especially through short-termism and increased financial activities of non-financial firms, had a significant negative impact on workers' share of economic output and income.[66]

Other studies have found that simply the surging size of the financial industry has exacerbated inequality. A 2018 paper found that a larger financial sector measured as a share of value-added in the economy was associated with more wealth going to the richest 1 percent and with higher income inequality.[67] A 2020 paper by economists from Bucknell University and the University of Siena

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62 Huber, Evelyne, Bilyana Petrova, and John D. Stevens. Luxembourg Income Study. "Financialization and inequality in coordinated and liberal market economies." LIS Working Paper No. 750. September 2018 at 8.
63 Tomaskovic-Devey and Lin (2013) at 191.
64 Lin and Tonaskovic-Devey (2013) at 1310 to 1313.
65 Tomaskovic-Devey and Lin (2013) at 177.
66 Dünhaupt (2013) at 17.
67 Huber, Petrova, and Stevens (2018) at 8.

found that increasing the share of people working in the financial sector by 1 percentage point increased income inequality by between 0.25 percent and 0.5 percent (measured by the Gini index) which in turn was associated with greater concentration of wealth in financial assets.[68]

The financial industry also contributes to wealth inequality through exploitative financial products and contracts. The profusion of predatory mortgage contracts, many of which were designed to strip home equity from consumers rather than offer a reasonable and affordable loan product, was at the heart of the 2008 financial crisis.[69] Predatory lending ranging from high-interest payday and car title loans to overdraft fees, continues to strip billions of dollars from low- and moderate-income consumers each year, and to trap people in debt. These high-cost lenders — some of them owned by Wall Street firms — target people with low wages or incomes, and profit from the fact that they do not earn enough to make ends meet.[70] After wages are negatively impacted by financialization, some workers are penalized again by abusive financial practices. These household debt traps make it much harder for lower-income families to build wealth and disproportionately target Black and Latinx families.

Wall Street also takes a bite out of working people's savings. Compensation structures which pay professionals giving investment "advice" more for putting clients in higher fee, lower return, or riskier products transfer billions of dollars a year from working people saving for retirement, or to fund buying a home or paying for their children's education to Wall Street intermediaries. In 2015, the Council of Economic Advisors estimated that in the space regulated by the Department of Labor (just one slice of the market) these kinds of conflicts of interest cost everyday, small-scale investors some $17 billion a year in additional fees or lower returns.[71]

4) Wall Street and consolidation

The financial industry has gotten bigger and much more consolidated over the past several decades, but Wall Street has also been a key player facilitating and promoting mergers and consolidation in the rest of the economy. An increasingly concentrated economy makes it easier for larger and interconnected businesses to extract value, leaving workers and consumers with less, and further exacerbating economic inequality. Market consolidation is also related to financialization-driven short-termism, with more concentrated industries increasing shareholder payouts, share buybacks, and reducing capital investments.[72] Workers and consumers suffer in a more consolidated economy where bigger businesses have more power to impose price hikes, limit wages and worsen working conditions.

Wall Street investors and banks provide the infrastructure for the ongoing wave of consolidation that has swept the U.S. economy. These firms often act as the catalyst and profit centers for mergers and acquisitions, offering not only advisory services to both buyers and targets but also often

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[68] Dávila-Fernández, Marwil J. and Lionello F. Punzo. "Some new insights on financialization and income inequality: Evidence for the US economy, 1947-2013." *International Review of Applied Economics*. December 2020.
[69] Financial Crisis Inquiry Commission. "The Financial Crisis Inquiry Report." January 2011 at Chapter 6.
[70] Standaert, Diane and Delvin Davis. Center for Responsible Lending (CRL). "Payday and Car Title Lenders Drain $8 Billion in Fees Every Year." January 2017; CRL. "Financial Fairness for All." March 2019.
[71] Office of the White House Press Secretary. [Fact sheet]. "Middle Class Economics: Strengthening Retirement Security by Cracking Down on Backdoor Payments and Hidden Fees." February 23, 2015.
[72] Palladino (2018) at 15 to 16

underwriting the financing necessary to complete the takeovers. Merger services provided by investment and commercial generate significant fees for the financial firms. In 2019, M&A advisory fees reached $30 billion.[73] Even during the pandemic, Wall Street merger fees shot up to $45 billion in the first nine months of 2020, exceeding the peak before the financial crisis.[74]

Financial firms fee-generating involvement in takeovers effectively encourages and promotes more mergers. A 2004 paper by MIT economists found that optimistic merger analysts were more able to finalize mergers, which created conflicted incentives to promote mergers to capture advisory fees.[75] A 2007 paper by Drexel University and Arizona State University economists found that investment bank merger advisors have conflicts of interest to promote merger completion — both because of fees and to maintain clients — and optimistic analyst recommendations are "a significant contributor to merger completion."[76]

A 2001 study by a University of Cambridge economist found that bank advisory market share was associated with higher M&A fees and increased likelihood of deal completion.[77] In the first nine months of 2020, the five biggest banks — JPMorgan, Goldman Sachs, Bank of America, Morgan Stanley, and Citigroup — captured one third of the M&A advisory fees totally nearly $20 billion.[78]

Private equity firms have supercharged the recent wave of consolidation by financing nearly half of all U.S mergers. Private equity deals were less than one fourth of all North American mergers in 2009 (23.9 percent) but rose to nearly four in ten deals by early 2019 (39.4 percent).[79] Deals slowed during at least the earlier parts of the pandemic, but private equity takeovers continued to account for about 40 percent of deals in 2020.[80]

Private equity firms also contribute to consolidation because firms in some sectors pursue a strategy of "rolling-up" fragmented industries to increase their market power. The private equity firms use "add-on" deals to purchase multiple competitors of a portfolio company to create a much bigger player in an industry. These add-on deals are now the majority of private equity takeovers, over 70 percent of private equity deals in 2020.[81] These roll-ups have been especially prevalent in healthcare where private equity snaps up many smaller businesses (like ambulance companies, medical practice groups, dermatologists or dental offices) into larger firms that can negotiate for higher prices, charge consumers excessive fees by staying out-of-network (a surprise billing strategy), or offer ancillary

[73] Platt, Eric. "Wall Street M&A fees drop by more than $500m in 2019." *Financial Times*. January 17, 2020.
[74] Saigol, Lina and Paul Clarke. "Wall street banks net $63 billion in fees in bumper year for M&A and IPOs." *MarketWatch*. October 1, 2020.
[75] Kolasinski, Adam C. and S.P. Kothari. MIT Sloan School of Management. "Investment Banking and Analyst Objectivity: Evidence form Analysts Affiliated with M&A Advisors." August 2004.
[76] Becher, David A. and Jenifer L. Juregens. Drexel University and Arizona State University. "Analyst Recommendations and Mergers: Do Analysts Matter." April 2007 at 4 to 6, 24 and 31.
[77] Rau, P. Raghavendra. "Investment bank market share, contingent fee payments, and performance of acquiring firms." *Journal of Financial Economics*. Vol. 56, No. 2. 2005.
[78] Saigol and Clarke (2020).
[79] Lykken, Alex. Pitchbook. "PE's prominence in the M&A scene continues to grow." August 2, 2019.
[80] Pitchbook reports private equity accounted for an estimated $724 billion in U.S. mergers and an estimated total $1.7 trillion in North American mergers. Fernyhough, Wylie and Rebecca Springer. Pitchbook. "US PE Breakdown Q1 2020." April 2021 at 4; Fernyhough, Wylie and Rebecca Springer. Pitchbook. "North American M&A Report 2020 Annual." 2021 at 3.
[81] Fernyhough, Wylie and Rebecca Springer. Pitchbook. "US PE Breakdown Q1 2020." April 2021 at 5.

services that are not covered by insurance to drive up revenues.[82] For example, the two largest helicopter ambulance firms are private equity-owned, were formed by private equity buying up scores of separate firms, and now control more than half of the national market and routinely "surprise bill" transported patients as much as $30,000 to $40,000.[83]

In addition to promoting consolidation in other sectors, the banking and financial industry itself has become more consolidated. Mergers in the financial sector have left fewer, bigger banks and other financial institutions with more power over the economy. For example, the national deposit share of the top four banks nearly quadrupled from 1995 to 2020 from under 10 percent in 1995 to 35.9 percent in 2020.[84] Banks have merged with brokerages and asset managers as well as expanding their financial businesses into more areas. At the same time, the growth of the private equity industry has created mammoth firms that are now sitting on over $1.5 trillion in dry powder cash reserves dedicated to leveraged buyouts and roll-ups that drive consolidation.[85]

5) Private equity abuses and financial engineering harm real economy, hurt workers

Private equity abuses are emblematic of the corrosive effect hyper financialization can have on workers and the economy. Private equity's predatory practices include debt-funded leveraged buyouts; financial engineering that extracts value from target firms through excessive fees, dividends, and stripping out real estate and other valuable assets; and exploiting regulatory blind spots and tax loopholes like the carried interest rules to shift value and profits from the real economy to Wall Street firms and executives.

Private equity takeovers have been highly lucrative for private equity executives but exacerbate economic and racial inequality by enriching a tiny number of private equity executives while destroying hundreds of thousands of jobs, pushing down on wages and benefits, and worsening working conditions. The top earners at private equity firms are extremely well-paid.[86] In 2020, when tens of millions of workers lost their jobs and millions more struggled to be paid fairly or have working conditions that allowed them to stay safe during the pandemic, nearly 60 percent of private equity partners and managers got a raise on their already substantial compensation.[87] Those at the very top have gotten absurdly rich. The 2021 *Forbes* billionaire list included 40 private equity leaders with a combined net worth of over $200 billion.[88]

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[82] American Medical Association (AMA). Proceedings of the AMA 2019 Annual Meeting. 2019 at 446.
[83] Tozzi, John. "Air ambulances are flying more patients than ever, and leaving massive bills behind." *Bloomberg*. June 11, 2018; Roland, Christopher. "Why the flight to the hospital is more costly than ever." *Washington Post*. July 1, 2019.
[84] AFREF analysis of Federal Deposit Insurance Corporation (FDIC) Statistics on Depository Institutions data. Available at https://www7.fdic.gov/sdi/index.asp. Accessed October 2020.
[85] Espinoza, Javier and Eric Platt. "Private equity races to spend record $2.5tn cash pile." *Financial Times*. June 27, 2019.
[86] Dorbian, Iris. "Compensation spikes across PE as fundraising nears record level, ex-Lariat partner re-activates independent sponsor shop." *PE Hub Wire*. October 30, 2019.
[87] Saacks, Bradley. "Private equity pay revealed: Here's a look at how much people are making, broken down by level of experience and firm size." *Institutional Investor*. October 24, 2020.
[88] Dolan, Kerry A., Jennifer Wang and Chase Peterson-Withorn. "World's billionaires list: The richest in 2021." *Forbes*. April 7, 2021.

This wealth is substantially accumulated at working people's expense. Private equity takeovers pursue aggressive cost-cutting that frequently involves layoffs, offshoring, and wage and benefit cuts.[89] The financial engineering and debt loads imposed on target firms make them more financially precarious. Private equity-owned firms are more likely to slide into bankruptcy and liquidation, costing more workers their jobs and economic security. By raising already sky-high earnings for top executives, financializing a broader swath of the U.S. economy, and destroying family-sustaining jobs, private equity is exacerbating the gulf between the haves and have-nots in America, and increasing economic insecurity for working people.

Nor — despite industry claims — have the pension investors in private equity funds fared particularly well overall, especially more recently. The high fees, high risks, and upon closer examination often indifferent returns have meant that pension fund investments in private equity firms have often failed to outperform comparable public equities. In the last few years, in fact, research increasingly shows that these investments on average have underperformed comparable public equities.[90] The high and often hidden fees that private equity firms charge pension funds erode pension investment and shift money from retirees into the pockets of Wall Street.[91] According to Ludovic Phalippou, Professor of Financial Economics at the University of Oxford's Said Business School, and leading expert in the area "this wealth transfer might be one of the largest in the history of modern finance: from a few hundred million pension scheme members to a few hundred people working in private equity."[92]

The workers at the companies taken over by private equity pay the price for leveraged buyouts and other extraction tactics. First, cost cutting strategies to boost profits are often taken out of workers through workforce downsizing, lowering wages or eliminating raises, reducing benefits like health care and retirement, and eliminating severance payments.[93] Even for workers in unions, some private equity takeovers have forced benefit or wage cuts from workers and occasionally efforts to decertify existing unions or marginalize union workers.[94]

Private equity takeovers are more likely to lead to layoffs than other mergers and acquisitions. A 2019 study by University of Chicago and Harvard economists found that after two years, companies taken over by private equity had cut 4.4 percent more workers than comparable companies that were not taken over.[95] The job losses doubled within five years of private equity takeovers, the authors found in a subsequent study.[96]

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[89] Dmitrieva, Katia. "It might be making inequality worse." *Businessweek*. October 3, 2019.
[90] Sonti, Samir. City University of New York School of Labor and Urban Studies. Prepared for American Federation of Teachers and Americans for Financial Reform Education Fund (AFREF). "Lifting the Curtain on Private Equity: A Guide for Institutional Investors and Policymakers." March 2021.
[91] Phalippou, Ludovic. University of Oxford, Said Business School. "An Inconvenient Fact: Private Equity Returns & the Billionaire Factory." June 10, 2020.
[92] Le, Adam. "Story of the year: The private equity performance debate." *Private Equity International*. December 23, 2020.
[93] Coleman-Lochner, Lauren and Eliza Ronalds-Hannon. "What happens to a company when PE buys it?" *Businessweek*. October 3, 2019.
[94] Applebaum, Eileen and Rosemary Batt. Center for Economic and Policy Research. "A Primer on Private Equity at Work." February 2012 at 20.
[95] Davis, Steven J. et al. "The Social Impact of Private Equity Over the Economic Cycle." January 1, 2019 at 5.
[96] Davis, Steven J. et al. "Private equity, jobs, and productivity." *American Economic Review*. Vol. 104, No. 12. December 2014 at 3958.

During the pandemic, workers at private equity-owned firms could face higher risks. For example, Workers at private equity-owned PetSmart and PetCo reported that they were forced to work without adequate protective equipment in often overcrowded stores and without receiving adequate pay or benefits during the pandemic.[97] All nursing home workers reported a lack of protective equipment during the pandemic, but workers at private equity-backed nursing homes in New Jersey were disproportionately likely to contract and die of coronavirus.[98]

Cannibalizing Newspapers: Private equity firms and hedge funds have bought hundreds of newspapers over the past two decades, accelerating the pressure on an industry roiled by competition for advertising revenue and content from online platforms. Private equity's severe cost cutting has fired thousands of reporters, editors, designers, and printing-press operators to drive revenues and profits.[99] The five largest private equity and hedge fund-backed newspaper chains went from owning 226 daily newspapers in 2004 to 517 in 2020 — 41 percent of all daily papers in the country.[100] The *American Prospect* concluded that "Private equity has been gobbling up newspapers across the country and systematically squeezing the life out of them to produce windfall profits."[101] This has cost thousands of jobs, and also compromised news coverage and local government accountability for thousands of communities that have lost newspapers.

Alden Capital has been called the destroyer of newspapers.[102] Alden slashed two-thirds of the newspaper staff including unionized newspaper guild workers in the first seven years after it took over the Digital First Media newspaper chain.[103] Alden also shifted $900 million worth of newspaper real estate — offices and printing plants — into a separate Alden subsidiary, stripping assets out of the newspaper businesses.[104] Alden decimated the newsroom staffs at major metropolitan papers like the *Denver Post, Orange County Register*, and *San Jose Mercury News* as well as smaller dailies across the country.[105] Recently, Alden has been fending off a billionaire's attempt to buy Tribune Publishing and keep storied newspapers like the *Chicago Tribune* and *Baltimore Sun* independent.[106] Alden is not the only private fund snapping up newspapers, the trend includes the Apollo-backed GateHouse News' $1.8 billion buyout of Gannett, which includes USA Today and a fleet of major and minor dailies across the country.[107]

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[97] Saluto, Michael. "Pet adoption booming amid pandemic but workers accuse retailers of abuses." *The (UK) Guardian*. November 19, 2020; Louch, William. "PetSmart workers ask retailer's private equity owner for Coronavirus protections." *Wall Street Journal*. July 8, 2020.
[98] AFREF "The Deadly Combination of Private Equity and Nursing Homes During a Pandemic." August 2020.
[99] Posner, Michael. "Hedge funds and newspapers: A bad mix." *Forbes*. January 18, 2019.
[100] AFR analysis of the Database of Newspapers. University of North Carolina at Chapel Hill's Center for Innovation and Sustainability in Local Media. Available at https://www.usnewsdeserts.com/; Abernathy, Penelope Muse. University of North Carolina at Chapel Hill's Center for Innovation and Sustainability in Local Media. "News Deserts and Ghost Newspapers: Will Local News Survive." July 2020 at 15 and 35.
[101] Kuttner, Robert and Hildy Zenger. "Saving the free press from private equity." *American Prospect*. December 22, 2018.
[102] Abernathy, Penelope Muse. University of North Carolina at Chapel Hill's Center for Innovation and Sustainability in Local Media. "News Deserts and Ghost Newspapers: Will Local News Survive." July 2020 at 84
[103] Reynolds, Julie. "Meet the vulture who savaged the Denver Post." *The Nation*. April 13, 2018.
[104] O'Connell, Jonathan and Emma Brown. "A hedge fund's 'mercenary' strategy: Buy newspapers, slash jobs, sell the buildings." *Washington Post*. February 11, 2019.
[105] Nocera, Joe. "Imagine if Gordon Gekko bought news empires." *Bloomberg*. March 26, 2018.
[106] Dinsmore, Christopher. "Tribune Publishing sticking with Alden offer for now over bid by Maryland businessman and Swiss billionaire." *Baltimore Sun*. April 14, 2021.
[107] O'Connell, Jonathan. "As Gannett merger nears completion, union claims 'journalism will suffer' under deal." *Washington Post*. November 8, 2019.

Private equity bankruptcies cost jobs: The private equity industry's reliance on leveraged buyouts that burden the takeover target firms with often unsustainable debt loads can — and often do — imperil the finances of portfolio companies and even drive them into bankruptcy. Portfolio firm bankruptcies and liquidations cost workers their jobs and benefits, but also often severance payments, and retirement security as well.

Private equity portfolio firms are much more likely to go bankrupt than firms that were not taken over by private equity. A 2019 California Polytechnic State University study found that 20 percent of the firms taken over by private equity went into bankruptcy — a rate ten times higher than the non-private equity firms.[108] A 2019 Pitchbook analysis found that more than one-eighth (12.1 percent) of private equity takeovers over $500 million between 2016 and 2018 went bankrupt, more than double the 5.4 percent bankruptcy rate for other transactions, which Pitchbook attributed to the tremendously high levels of debt from the leveraged buyouts.[109]

Private equity-driven bankruptcies have led to significant job losses. The highly-leveraged takeover of Harrah's (now Caesar's Entertainment) saddled the casino with $24 billion in debt that drove it into bankruptcy; there were 19,000 fewer workers when it emerged from bankruptcy.[110] Private equity dismantled the Hahnemann University Hospital in Philadelphia, costing 2,500 jobs and eliminating a critical safety net hospital that served a predominantly Black and Latinx neighborhood on the eve of the pandemic.[111]

Eileen Applebaum and Rosemary Batt compared private equity-owned and non-private equity-owned grocery chains and found that private equity LBO debt loads, dividend extraction, and real estate stripping compromised the viability of the 50 supermarket chains taken over by private equity. One chain that went into bankruptcy pushed nearly 15,000 workers out of defined pension plans into 401Ks. Applebaum and Batt's report also found that the publicly traded Kroger kept its debt loads low, and invested in its stores while raising wages for its workers by $500 million while Albertsons, owned by the private equity firm Cerberus, was overburdened with debt and struggled to go public or find a buyer.[112] When Albertsons sought to renegotiate its union contract with the United Food and Commercial Workers in the Washington, DC area, it tried to slough off its

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108 Ayash, Brian and Mahdi Rastad. California Polytechnic State University. "Leveraged Buyouts and Financial Distress." July 19, 2019.
109 Dowd, Kevin. Pitchbook. "Are take-private buyouts worth the risk?" April 17, 2019.
110 Indap, Sujeet. "What happens Vegas ... the messy bankruptcy of Caesars Entertainment." *Financial Times*. September 26, 2017; Morgenson, Gretchen. "Caesars" debt: A game of dealer's choice." *New York Times*. September 13, 2014; "Caesars casinos files for bankruptcy." *Reuters*. January 15, 2015; Harrah's Entertainment, Inc. U.S. Securities and Exchange Commission (SEC). Form 10-K. March 1, 2007 at 8; Caesar's Entertainment Corporation. SEC Form 10-K. February 22, 2019 at 8;
111 Rush, Mariah. "Hahnemann University Hospital's inner turmoil: A timeline of changes, layoffs, and closing." *Philadelphia Inquirer*. July 1, 2019; "Owners of Hahnemann University Hospital file for bankruptcy protection." *WPVA ABC-6*. July 2, 2019; "Hahnemann University Hospital to close, leaving thousands out of work." *WCAU NBC-10*. June 26, 2019; "Hahnemann's closure will leave medical residents scrambling." *WHYY FM-91*. July 5, 2019.
112 Appelbaum, Eileen and Rosemary Batt. Center for Economic and Policy Research. "Private Equity Pillage: Grocery Stores and Workers at Risk." Fall 2018.

responsibility to fully fund the pension plan; Albertsons only agreed to fulfill its obligations after the union threatened to strike in 2020.[113]

Private equity and the retail apocalypse: Private equity has had a disastrous impact on the retail industry, driving dozens of firms into bankruptcy, shutting down tens of thousands of stores, and costing hundreds of thousands of jobs nationwide. These layoffs upend the already fragile economic security of the low-paid and often Black and Latinx women who work in retail. Private equity retail shutdowns also undermine local economies when retailers large and small disappear, compromising the future of shopping centers and eroding local sales and business tax revenues.

Many private equity-owned retail chains that have disappeared over the past two decades caused devastating layoffs across the country — like the failures of Payless Shoes, Toys R Us, and the downsizing of Sears/Kmart. Other private equity-driven failures have destroyed popular regional chains like A&P (Northeast), Fred's (Southeast and Midwest), Mervyn's (West and Southwest), and Shopko (Midwest to West).

Large debt loads from PE leveraged buy outs have been major contributors to these bankruptcies, as firms were unable to service them and maintain successful operations. While the private equity firms and executives typically walk away largely unscathed or even profiting from the deals that led to the retailer's collapse, hundreds of thousands of women and people of color in frontline retail jobs have lost their livelihoods, often with no severance and no recourse.

The pandemic is exacerbating the headwinds challenging the brick-and-mortar retail industry, but the extractive private equity business model compromised the economic viability of retailers long before the pandemic. Private equity-owned retailers had slashed over half a million jobs before the pandemic, disproportionately hitting women of color working in low wage jobs.[114] These job losses included an estimated 300,000 women, 101,000 Latinx workers, and 68,000 Black workers based on their share of the retail workforce.[115]

More than half (55.4 percent) of retail bankruptcies since 2015 were at private equity chains. Before the pandemic, from 2015 to 2019, nearly two-thirds (62.5 percent) of retail chains that entered bankruptcy were owned by private equity firms. During 2020, when the pandemic drove a broader retail downturn, nearly two out of five (39.3 percent) of bankruptcies were at private equity-owned chains.[116]

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113 Gregg, Aaron and Abha Bhattaral. "Safeway workers prepare for strike vote as contract negotiations remain stalled." *Washington Post*. February 29, 2020; Woodfork, Rob. "Union, Safeway reach agreement just hours before planned strike." *WTOP-FM*. March 5, 2020.
114 AFREF, Center for Popular Democracy, and United for Respect. "Double Exposure: Retail Workers Nationwide Hammered by Combo Crisis of Pandemic and Private Equity." December 2020.
115 Anderson, D. Augustus and Lynda Laughlin. U.S. Census Bureau. "Retail Workers: 2018." ACS-44. August 2020 at 4.
116 Analysis of ownership of 175 retail firms that entered bankruptcy from 2015 to September 2020. The retail chain bankruptcies were derived from "Here's a list of 113 bankruptcies in the retail apocalypse and why they failed." *CB Insights*. Research Brief. July 30, 2020; "The running list of 2020 retail bankruptcies." *Retail Dive*. September 14, 2020; Hirsch, Lauren. "Guitar Center files for bankruptcy." *New York Times*. November 22, 2020. This analysis excludes chains on these lists that do not sell merchandise at brick-and-mortar stores such as restaurants, service sector chains, e-commerce, or brand manufacturers and distributors. Ownership based on corporate documents, reports, and filings as well as media reporting and determination from the Pitchbook database.

6) Wall Street uses its political power to shape law and regulation at the expense of workers

The financial industry's economic and political power have fed each other, with vast resources helping it to continue to shape and reshape policy. Financial interests and their allies have a well-funded political and lobbying apparatus that they have used to advance policies that create the structures and dynamics discussed in this testimony. In 2020, for the second presidential election cycle in a row, the financial services industry made more campaign donations than any other specific industry, and was the second largest spender on lobbying (behind health care), according to Center for Responsive Politics data.[117] During 2019 and 2020, Wall Street and financial interests spent $2.9 billion in lobbying and campaign contributions, about $4 million every day and 50 percent more than they spent during the prior presidential election cycle.[118] And these numbers do not even come close to describing the full scope of their policy and political activities, which include "dark money" spending not counted in these amounts, and many activities to influence legislation and regulation which are not reported as lobbying.

Especially since the late 1970s, Wall Street and banking interests lobbied hard to deregulate the financial markets and to fend off consumer and investor protections. Congress, banking and securities regulators, and federal courts went along, eroding structural and consumer protection safeguards in ways that that enabled and emboldened financial firms to expand in size and offer more and more complex financial products.[119] The deregulatory efforts expanded the powers of banks, weakened oversight and safety and soundness protections, allowed banks and financial firms to expand into new businesses and merge banking and other financial products like securities trading and insurance, deregulated Wall Street trading markets, weakened corporate accounting rules, and facilitated the explosion of subprime predatory mortgages and derivatives market in the early 2000s.

The weakened oversight and enhanced room for speculation and concentration they secured led to the 2008 financial crisis.[120] Then, even in the face of those devastating consequences, most of the industry aggressively fought to block the passage or weaken the Dodd-Frank Wall Street Reform and Consumer Protection Act, and have continued to try to chip away at it, as well as to prevent passage of additional or more robust financial reforms since then.

Lobbying to strip away many of the New Deal era banking and securities laws in the late 1990s through the Gramm-Leach Bliley Financial Services Modernization Act of 1999 and the Commodity Futures Modernization Act of 2000 in particular helped to create the too-big-to-fail financial conglomerates that catalyzed the 2008 financial crisis. The commercial banking, investment banking, and insurance industry lobbied for years to eliminate the Glass-Steagall barriers to merging their businesses, spending an estimated $300 million on the effort.[121]

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117 AFR. "Wall Street Money in Washington: 2019-2020 Campaign and Lobby Spending by the Financial Sector." March 2021 at 21 and 26; AFR. "Wall Street Money in Washington: 2015-2016 Campaign and Lobby Spending by the Financial Sector." March 2017 at 13 and 18.
118 AFR (March 2021).
119 Tomaskovic-Devey and Lin (2013) at 170 to 175.
120 *See* Financial Crisis Inquiry Commission. "The Financial Crisis Inquiry Report." January 2011.
121 Ridgeway, James. "It's the deregulation, stupid." *Mother Jones*. March 28, 2008; Ritholtz, Barry. "Repeal of Glass-Steagall: Not a cause but a multiplier." *Washington Post*. August 4, 2012.

The industry has often claimed that the deregulation they sought would improve the economic well-being of low- and moderate-income and of Black and Latinx communities. For example, prior to the 2008 financial crisis, industry advocates argued that subprime mortgages would help close the Black-white homeownership gap, and that regulating abusive mortgage practices would harm Black homeowners — a contention that community leaders and housing advocates contested sharply at the time, and that was devastatingly contradicted when millions of families lost their homes and their household wealth in the subprime mortgage meltdown.

Below we outline just a few recent examples of Wall Street lobbying against workers and communities.

Private equity backed chain restaurant firm brags of stopping $15 minimum wage: Roark Capital has focused on restaurant brand chains through its subsidiary Inspire Brands.[122] Inspire held a portfolio of over 20 fast food brands with about 60,000 locations and $14.6 billion in pre-pandemic sales at chains like Sonic, Arby's, Dunkin' Donuts, Hardee's, Buffalo Wild Wings, Jimmy Johns and more.[123] Roark Capital spent $1.2 million on campaign contributions and lobbying from 2017 to 2020.[124] In 2021, Roark's Inspire Brands sent a memo to its workers and franchises saying that it had successfully lobbied to block a $15 an hour minimum wage along with measures in the PRO Act to protect workers trying to form unions from the Biden pandemic stimulus legislation.[125] The Inspire memo stated "We were successfully in our advocacy efforts to remove the Raise the Wage Act, which would have increased the federal minimum wage to $15 and eliminated the tip credit."[126]

Private equity dramatically waters down surprise medical billing legislation: Patients are vulnerable to expensive "surprise" medical bills when they unknowingly receive out-of-network care that insurers will not cover or fully reimburse, leaving patients to cover an often-expensive balance. Private equity firms have driven the rise in surprise billing that threatens the financial stability of vulnerable patients. Millions of people receive surprise medical bills annually and these private-equity imposed bills have worsened the widespread and significant burden of medical debt, which contributes to two-thirds of household bankruptcies.[127] A 2019 Stanford University study found that 43 percent of patients received surprise emergency room and hospital inpatient bills in 2016, a considerably higher proportion of patients than in 2010, and that the cost of those out-of-network bills rose to over $2,000.[128] In 2019, Envision, TeamHealth and other private equity-financed groups

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122 Hirsch, Lauren. "Do Dunkin' and Arby's go together? Private equity group bets $11 billion they do." *New York Times*. October 30, 2020.
123 Sorvino, Chloe. "Why fast food's smartest operator is expanding when business is terrible." *Forbes*. July 27, 2020; Hirsch (2020).
124 Center for Responsive Politics. Open Secrets database. Roark Capital Group for lobbying and campaign contributions 2017 to 2020. Accessed April 2021.
125 Sirota, David, Andrew Perez, and Walker Bragman. "This fast food giant bragged about killing the $15 minimum wage." *Newsweek*. March 27, 2021.
126 *Ibid.*
127 Kliff, Sarah and Margot Sanger-Katz. "Surprise medical bills cost Americans millions. Congress finally banned most of them." *New York Times*. December 22, 2020; Ford, Jonathan. "Private equity has inflated US medical bills." *Financial Times*. October 6, 2019; Himmelstein, David U. et al. "Medical bankruptcy: Still common despite the affordable care act." *American Journal of Public Health*. Vol. 109, No. 3. March 2019 at 431 to 433.
128 Sun, Eric C. et al. "Assessment of out-of-network billing for privately insured patients receiving care in in-network hospitals." *JAMA Internal Medicine*. August 12, 2019.

spent over $55 million in lobbying and advertising to derail efforts to effectively curb surprise billing.[129] In the face of their lobbying, the legislation that was passed in 2020 left gaps and loopholes that will allow harm to patients, and windfall profits to private equity owned firms, to continue. The provisions did not ban higher out-of-network charges and billing disputes will go to arbitration, what *Bloomberg* called a "win for the [private equity] health care companies."[130] And while the language did cover air ambulances, ground ambulances were excluded from the legislative fix and can still charge surprise bills.[131] Private equity firms began to buy up ambulance companies after the 2008 financial crisis and more than 80 percent of ground ambulance trips result in surprise medical bills that can run from $2,000 to $4,000.[132]

Lobbying for tax cuts yields billions in profits: During the battle over the 2017 TCJA tax legislation, Business Roundtable lobbying under the stewardship of JPMorgan CEO Jamie Dimon, quadrupled in one quarter to over $17 million.[133] Dimon later bragged that the tax cuts boosted JPMorgan's profits by $3.7 billion.[134] Wells Fargo, a bank mired in repeated scandals like creating fake consumer accounts, got a $3.7 billion bump in profits from the 2017 tax cuts (about 47 times more than the cost of the wage increase it promised to $15 an hour in response to criticisms).[135] In 2017, Wells' CEO promised to use the tax cuts to reward shareholders, telling CNN "is it our goal to increase return to our shareholders and do we have an excess amount of capital? The answer to both is yes so our expectation should be that we will continue to increase our dividend and our share buybacks next year and the year after that and the year after that."[136] A few months later, Wells announced a 350 million share buyback, which boosted its scandal-plagued share price.[137]

Lobbying to sustain valuable "carried interest" tax loophole: Private equity firms benefit from provisions of the tax code that apply lower 20 percent capital gains tax rates to the distributions from their investments than they would pay if these earnings were taxed at as ordinary income (where rates top out at 37 percent).[138] This is known as the carried interest loophole, the highest-profile of the tax treatments that benefit the private equity industry. It provides private equity managers an enormous tax break, taxing their earnings below income generated by other types of managers and allows super wealthy private equity executives to be taxed on this income at lower rates than teachers and firefighters.[139] The 2017 tax cut maintained the carried interest loophole for investments held over three years, which include virtually all private equity investments which are

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[129] Dexheimer, Elizabeth. "Blackstone-KKR hidden hand in ad blitz unleashes Washington fury." *Bloomberg*. January 8, 2020; Lewis, Adam. Pitchbook. "PE digs in as battle to end surprise medical bills wages on." March 6. 2020.
[130] Perlberg, Heather and Melissa Karsh. "Private equity dodges worst from surprise-billing crackdown." *Bloomberg*. December 22, 2020.
[131] Kliff and Sanger-Katz (2020).
[132] Webb, Olivia. "Private equity chases ambulances." *American Prospect*. October 3, 2019; Bailey, Melissa. "Ambulance trips can leave you with surprising – and very expensive – bills." *Washington Post*. November 20, 2017.
[133] "U.S. business group lobbying surged as tax reform took shape—report." *Reuters*. January 22, 2018.
[134] Horowitz, Julia. "Jamie Dimon says tax cuts added $3.7 billion to JPMorgan's profit." *CNN*. April 4, 2019.
[135] Grabar, Henry. "All it took for Wells Fargo to raise wages by a buck-fifty was $3.7 billion in tax cuts." *Slate*. December 21, 2001.
[136] DePillis, Lydia. "Why Wells Fargo could be one of tax reform's big winners." *CNN Money*. December 18, 2017.
[137] Wells Fargo & Co. [Press release]. "Wells Fargo & Company announces common dividend and increased common stock repurchase authority." January 23, 2018.
[138] Marples, Donald J. Congressional Research Service. "Taxation of Carried Interest." Report No. R46447. July 9, 2020 at 3.
[139] Rep. Pascrell, William. [Press release]. "Pascrell, Levin, Porter move to close infamous tax loophole favored by Wall Street bankers." February 16, 2021.

typically held more than 5 years.[140] Taxing these earnings as ordinary income would generate between $1.4 billion and $18 billion in revenues annually.[141]

Wall Street and the private equity industry have fought for years to exempt their income from fair taxation. Blackstone's CEO Steven Schwarzman said that defeating efforts to close the carried interest loophole was "a war. It's like when Hitler invaded Poland," although he later apologized for the Nazi analogy.[142]During the 2017 tax cut lobbying frenzy, the private equity industry's main trade association, the American Investment Council (AIC), was "busy pushing for tax reforms that would keep carried interest — the tax-advantaged profit share keeping private equity managers wealthy — in play," according to *Institutional Investor*.[143] The industry prevailed by keeping the carried interest loophole largely intact in the 2017 tax cuts. The Trump administration National Economic Council director and former Goldman Sachs president, Gary Cohn, attributed the industry's success to private equity's "very large presence in the House and the Senate" and its "really strong relationships on both sides of the aisle."[144] During the 2018 election cycle, AIC backed Republican candidates two-to-one over Democrats after the 2017 tax legislation failed to close the carried interest loophole.[145] As the Biden administration considers closing corporate tax breaks and loopholes including the carried interest loophole, AIC and individual private equity firms are investing in top tier lobbying talent to save their preferential tax treatment.[146]

7) Policy approaches to rebalance the economy towards workers and communities

There is a wide array of policy responses needed to address the causes and consequences of a damagingly Wall Street centric economy, including both legislative and regulatory change. We cannot build a more safe and just economy for working people of all races without reshaping the rules of finance so they better serve the public interest, and insist on more accountability for Wall Street, or without public alternatives to the exclusive control of investment and financial services by Wall Street.

Our policy recommendations assembled in preparation for the new administration lay out many such policies covering financial regulation, consumer protection, and housing.[147] They include a set of levers that de-incentivize speculation and limit financial institutions' ability to pursue predatory strategies that maximize their own short-term profits while trapping people in debt, increasing wealth inequality, undermining racial justice, and threatening the stability of the broader economy. In

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[140] Marples (2020) at 4.
[141] *Ibid.* at 5; Merle, Renae. "What is 'carried interest' and why it matters in the new GOP tax bill." *Washington Post.* November 7, 2017.
[142] Clark, Andrew. "Blackstone billionaire is sorry for Nazi jab against Obama's tax policies." *The Guardian.* August 17, 2010.
[143] McElhaney, Alicia. "Inside the private equity lobby." *Institutional Investor.* November 8, 2017,
[144] Rappeport, Alan. "Trump promised to kill carried interest. Lobbyists kept it alive." *New York Times.* December 22, 2017.
[145] Primack, Dan. "Private equity's lobbying group donates more to Republicans." *Axios.* October 5, 2020.
[146] Schwartz, Brian. "Investment firms, private equity advocacy group hires lobbyists as lawmakers target tax loopholes." *CNBC.* March 8, 2021.
[147] AFR. "Issues and Recommendations for a Safe and Just Financial System." November 2020; AFR. "AFR Consumer Finance Priorities for 2021." December 2020.

addition, we need meaningful campaign finance reform to prevent Wall Street and all corporate special interests from overwhelming public policy debates with lobbying dollars and campaign contributions. And the country needs measures to increase worker power and ability to organize and form unions.

Here we point to a few key items as examples:

Rein in private equity abuses: The Stop Wall Street Looting Act would eliminate tax, securities and bankruptcy law carve-outs that allow Wall Street titans to make billions at the expense of workers, communities and pensions. It would protect jobs and advance economic justice. As written now, Federal law establishes incentives for private equity firms and private equity executives to engage in the very practices that are causing harm. The Stop Wall Street Looting Act would prohibit or eliminate tax preferences that facilitate key predatory practices central to the harm caused by today's private equity business model. It would eliminate the loopholes that make it easier for private equity firms to use leveraged buyouts to profit from destroying American jobs, ban practices that drain value from companies owned by predatory funds, protect investors including pension funds from reckless and deceptive financial managers, and provide more compensation for workers if their employer enters bankruptcy. It would also close the "carried interest" tax loophole and hold billionaire profiteers personally accountable for the damage they do, whether that be to workers or to the environment.

Stop manipulative stock buy backs: Congress should revise rules governing stock buybacks to sharply restrict when they are permitted and when they are assumed to be market manipulation. The Reward Work Act would ban open-market stock buybacks that overwhelmingly benefit executives and activist hedge funds at the expense of workers and retirement savers. It does this by repealing SEC rule 10-b18 which shields companies from manipulation charges when buying back their stock in the open market. The Reward Work Act also reforms corporate governance to empower workers and to give them more of a say in decision-making. The SEC could also take action without statutory change to regulate stock and limit stock buybacks.[148]

Make Wall Street and the super wealthy pay their fair share of taxes: Predatory behavior by financial institutions has redirected wealth to those already at the top. The fact that this wealth is undertaxed further increases inequality and reinforces incentives for financial engineering. This reduction in tax receipts is then used as an excuse for why the United States cannot "afford" a robust safety net. Congress should take action to fairly tax Wall Street wealth and pay for programs that reduce inequality and provide social benefits. They should also take steps to eliminate tax code provisions that encourage financial engineering, which will help rebalance the economy in favor of productive investments. Specific tax proposals include imposing a wealth tax, closing the carried interest loophole and more broadly taxing income from wealth and investments on a par with income from wages, rather than at a lower rate, and instituting a financial transaction tax. Enhanced tax enforcement, including a focus on tax avoidance schemes frequently used by private funds, is also very important.

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[148] Palladino, Lenore. "The $1 trillion question: New approaches to regulating stock buybacks." *Yale Journal on Regulation*. Vol. 36. 2018.

Stop predatory lending: High-cost lending, including pay day, car title, and much overdraft lending traps people in debt, and transfers billions of dollars a year from economically vulnerable people to financial firms. It turns low wages and inadequate incomes into one more opportunity for finance to make money at the expense of people who are economically vulnerable. Many states have passed interest rate limits with overwhelming and bipartisan public support — most often through the initiative process, because industry lobbying and campaign contributions make it so difficult to accomplish through state legislatures. For the same reasons, people in many states remain unprotected, and Congress has thus far failed to take action. Now, even the existing state law interest rate caps are threatened by a 2020 Office of the Comptroller of the Currency (OCC) rule that allows predatory lenders to partner with a bank to evade state laws. Congress should act swiftly to pass the Congressional Review Act Resolution overturning the OCC rule, and then it should pass a Federal interest rate cap, as embodied in the Veterans and Consumers Fair Credit Act.

Improve the regulation of big banks: After the effective reversal of Glass-Steagall restrictions on the activities of mega-banks in the late 1990s, the largest Wall Street banks can use their large asset base to finance the full range of risky financial activities, including private equity and hedge fund speculation and all kinds of securitization and derivatives transactions. We saw the results of this in the 2008 financial crisis, where big banks played a central role in creating the "toxic" mortgage assets that sank the economy. The Dodd-Frank Act toughened regulations of these banks by requiring them to provide more loss-absorbing capital and imposing controls on proprietary trading and funds activities through the Volcker Rule. However, these restrictions were never implemented in a strong enough fashion and were then severely weakened during the Trump Administration. Without strengthening regulation of big banks at the center of the financial system it will be difficult to control the harmful activities they finance and otherwise ensure financial stability.

Develop Public Alternatives: Even when Wall Street predatory practices can be better controlled, private investment for profit will not fully serve critical public needs. We need institutions that make retail banking services available regardless of income. In investment markets, new institutions are needed that make patient capital available for long-term, high road growth strategies, including investments in developing a low carbon economy, addressing systemic discrimination and racial inequality, and creating robust infrastructure and industrial development in every region to enable opportunity. These should be delivered via new public institutions that can provide alternatives for investment and financial services that prioritize public needs. Specific examples include robust Fed accounts, postal banking and measures to encourage and support state and local public banks, and the creation of a Public Investment Bank.