

# Corporations and the New Economy

A Workshop

National People's Action

National Leadership Conference 2010

Prepared by

Grassroots Policy Project



## 1. Introduction

### Goals for the workshop:

- Provide information and ideas to support our campaigns to transform banking and lending.
- Develop our analysis of corporate power and what we can do to promote more accountable and democratic economic relationships. For this, we also will build upon real-world examples of campaigns and actions that advance a New Economy.
- Note the ways in which corporate power and 'too big to fail' perpetuate structural racism and other forms of economic oppression.
- Explore elements of a narrative for NPA about the role of banks and corporations in an economy that works for all of us.

### NPA's Big Ideas and the New Economy

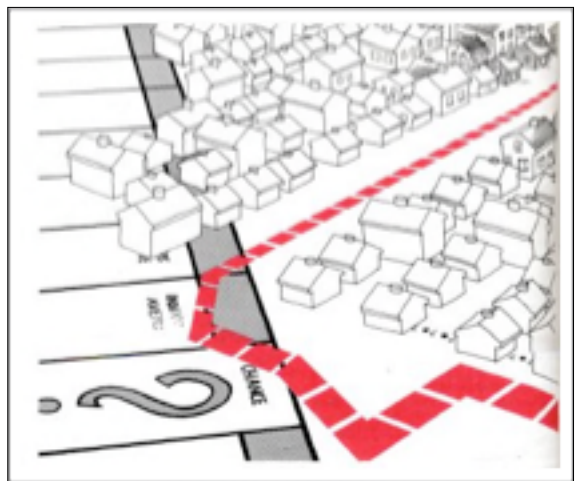
NPA knows that we are in a battle of big ideas. For the past thirty years we have been up against a set of ideas that have promoted an unregulated and out-of-control financial sector and unaccountable corporations that don't serve the needs of our country. The big corporations and their allies in politics and the media invoke the 'free market' and 'limited government' as excuses to enlarge corporate control over all aspects of our economy, our politics and our media. We believe in democratic principles and we say "the economy must work for all of us."

For three years, NPA leaders and members have been developing a set of beliefs and big ideas that shape our work. Recently, we have been applying these ideas to develop principles for a New Economy. We have included a description of NPA's beliefs and big ideas at the end of this workbook.

### Community Reinvestment: Overview

The Community Reinvestment Act (CRA) is an example of a community-led effort to compel banks to serve the needs of all people, in every community.

Passed by Congress in 1977, the CRA states that "regulated financial institutions have obligations to help meet the credit needs of the local communities in which they are chartered." Communities fought for the CRA to put a stop to **redlining**, to end race and class discrimination in lending, and to compel the banking industry to serve low and moderate-income neighborhoods with a wide range of lending services, including loans for families, small businesses and community-based not-for-profit enterprises.



As financial institutions have changed over the past thirty years, more and more loans have been made by institutions that are not covered by the CRA. Changes in mortgage markets, lax enforcement and financial sector deregulation made it harder for CRA-backed programs to compete with predatory lenders. NPA has documented the ways in which predatory lenders target communities of color, perpetuating patterns of structural racism in housing and lending. We need to strengthen tools like the CRA to address longstanding patterns of both race and class discrimination in lending.

### **Activity 1**

Form a group of three people. Introduce yourselves and where you're from. The Community Reinvestment Act makes banks play some public purposes — things that benefit the community and the common good — name some of them.

## **2. Resistance to Corporate Power**



The original tea party was a statement against corporate power, not just about taxes. Their target was the British East India Company, a giant multi-national corporation chartered by the British monarchy. Not only did the East India Company monopolize the tea trade, it also was exempted from the taxes that local tea merchants had to pay.

### **“We the People,” not “We the Corporations.”**

*“If the applicants’ objective is merely private or selfish; if it is detrimental to or not promotive of, the **public good**, they have no adequate claim upon the legislature for privileges.”* — ruling of the Supreme Court of Virginia regarding the granting of corporate charters, 1809

After the revolution, the newly formed states established provisions to prevent the rise of powerful corporations and financial institutions. The main way they did this was through state charters that regulated their activities and held them to a **public purpose**.

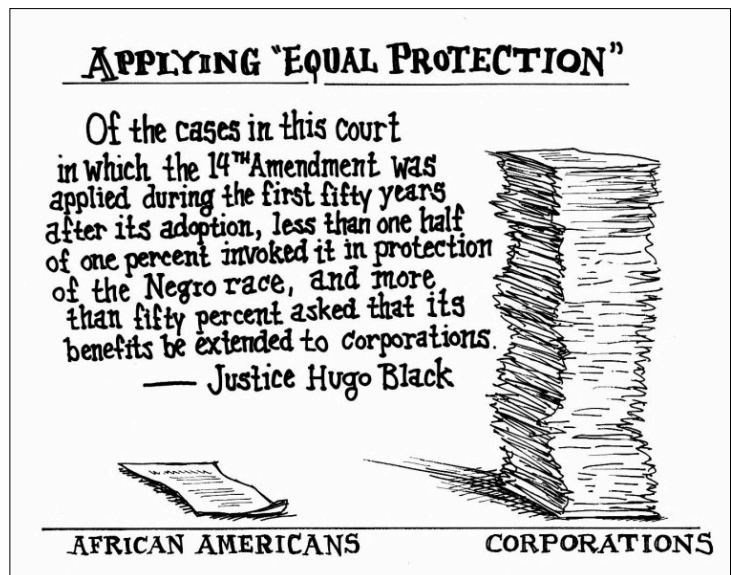
In the early years (from the 1780s until the 1850s), state legislatures wrote corporate charters with tough regulations. Charters were limited, from 20 to 40 years for non-

financial corporations, and three to ten years for banks. If a corporation violated its terms, the charter could be revoked. In exchange for a charter, a corporation was expected to obey all laws, cause no harm and serve the common good. The most common types of for-profit corporations of the late 18<sup>th</sup> and early 19<sup>th</sup> centuries were chartered to build infrastructure such as roads, turnpikes, canals and bridges.

Banks were granted charters with even greater limits than those awarded to non-financial corporations. They had to get approval to increase capital stock or to merge with another bank. Some states required banks to make loans to support local enterprises, and banks were forbidden to engage in other forms of trade.

Reference: *Taking Care of Business: Citizenship and the Charter of Incorporation* by Richard L. Grossman and Frank T. Adams, Charter Ink, 1993

**“We the People” did not include everyone.** At the same time that newly enfranchised citizens struggling to safeguard democracy from corporate power, they allowed entire groups of people to be excluded from political life. Since then, democratic struggles have aimed to expand “we the people” to include African Americans and former slaves, workers without property, women, immigrants and Native Americans. Still, corporations continued to gain special constitutional protections. They have won greater rights than individual citizens, with fewer responsibilities.



Democracy in the economic sphere — especially democratic input from communities and workers about jobs, investments, uses of natural resources, etc, has been greatly curtailed since those early days. This helps explain why our notions of democracy have evolved in ways that falsely separate ‘political’ rights and ‘economic’ rights. A new economy should strive to bring these rights together, recognizing that the economy exists within and is part of all other political and social practices and institutions. This is one way we can better understand the relationship between structural racism and other forms of political and economic oppression.

## Activity 2

What are one or two *public purposes* that corporations could and should play in our communities, cities and in our country today? Write them here.

### 3. The Corporate Empire Strikes Back

While the citizens of early America were trying to exert local control over corporations and banks, corporate owners and wealthy people were busy getting corporate-friendly judges appointed and lawmakers elected. As their power increased, corporations rolled back the restrictions of state charters (early deregulation!), formed conglomerates and monopolies, and came to dominate the economic and political landscape of our country.



By the late 19<sup>th</sup> century, a handful of judges gave corporations special constitutional protections; in some key ways, corporations today have more rights than people: unlike us, they are shielded from liability for debts, for the harms caused by their activities, and, in some cases, even for unpaid wages.

Maximizing profits replaced '**public purpose.**' For business-friendly judges and lawmakers, profit-making was equated with the public good; as in, 'what's good for big business is good for America.' The resulting laws left corporations free to exploit people, communities and the natural world with impunity.

#### Corporate power

Community organizers often talk about power as "organized people and organized money." As we look at the power of big corporations, working alone and together, we have to take into account their many sources of power.

**Economic power:** this is the most fundamental power corporations have.

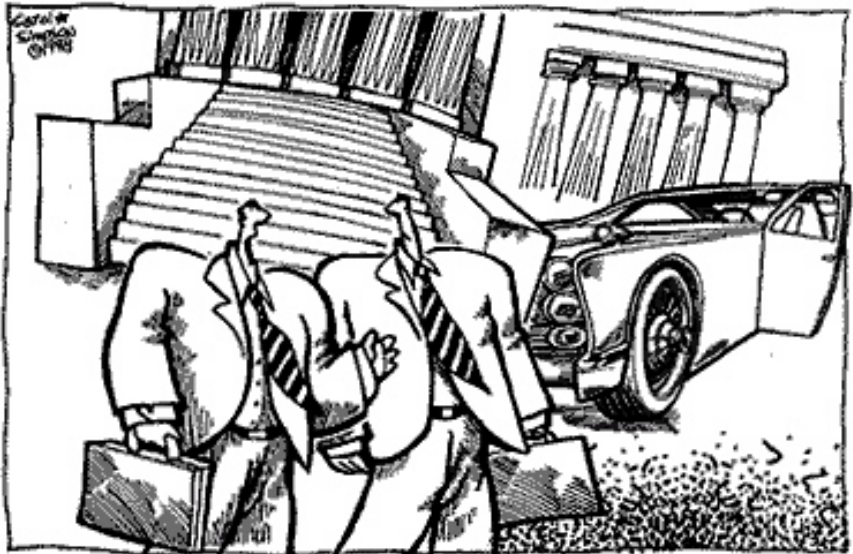
- Corporations make decisions about capital investments. When a corporation puts new investments in an area, it can create new jobs and increase the tax

revenues for the area and the state. If a corporation dis-invests and sends its plants and jobs somewhere else, the community can be badly hurt.

- Right now, big corporations and banks are “on strike.” They are not investing, they are sitting on their funds. When there is an “investment strike,” it causes unemployment and that causes government deficits.
- Big corporations control many jobs and they can create new jobs.
- Corporations can threaten to leave an area, or to shut down if the workers try to form a union. Just those threats alone affect the workers, the community, the media, and politicians.

**Political power:**

- Big corporations put huge amounts of money into lobbying and political contributions.
- They affect court decisions
- They capture the regulatory agencies that are supposed to regulate them. Mining companies have often dominated the Bureau of Mining, and big banks and Wall Street have heavily influenced the Federal Reserve and the many agencies that are supposed to regulate the financial sector.



*"We purchased an entire Senator, and he was defeated for re-election. Can't we sue the voters or something?"*

**Power of big ideas:**

- Big corporations and their allies have worked for years to promote their big ideas:
  - Rugged individualism: you are on your own; only the strong survive; there are winners and losers in the game of life.
  - Equality already exists: we are a classless society; everyone starts out on an even playing field; we are a post-racial society, etc.
  - Free market fundamentalism: the market always produces the best outcome; it works best when government leaves the market alone.
  - Limited Government: To promote business, government should stop imposing regulations (including safety, health, environment and labor standards), lower taxes and get out of the way.
- Corporate America also controls many of the sources of information and ideas in society. It owns most of the national media. And corporations and their allies work their big ideas into every policy fight and political campaign.

### **Activity 3**

Draw a sketch about corporate power in the space below. Explain it to your neighbor.

## **4. Wall Street Takes Over Our Economy**

“We used to make things in this country. Now we just put our hands in the other guy’s pocket.” — Frank Sobatka, *The Wire*

The purpose of banks and finance is to recycle savings back into investments for production of goods and services — and real jobs. But the financial sector tends to drift away from this purpose in pursuit of short-term profits by speculating on the prices of stocks and other securities, and things like gold. And they speculate with other people’s money, including our savings and our homes.

Some disasters that hit us are natural, like major earthquakes — though Hurricane Katrina tells us that even “natural” disasters are shaped by social and economic factors, and by race and class. Economic crises aren’t natural, they don’t “just happen.” Almost every economic crisis in the US has been caused by the financial sector — banks, Wall Street, and other financial corporations.

The scenario is more or less the same each time: the economy is going well, rich people and companies are making lots of money, and they want to use it to make even more money. If you use your money to create a new factory, it is a long and hard process. The financial sector promises you that they have a new way to invest that gets bigger returns, quickly, and without so much work. For a while it works, and the people who get in early look smart and get richer. So more money comes into the financial

sector. It gets invested somewhere, in something a little shakier and a little riskier — and then one day it gets too shaky and the whole thing collapses.

The crash of 2008 is only the most recent of a long list of financial panics, crises, collapses, bubbles, and meltdowns. Sometimes, after a financial crisis, laws and regulations restrain the banks and investment companies. And then, after a few years, the banks and the investment people say, “we learned from last time, *this time it will be different*. Trust us.”

Time and again, we as a nation fail to learn from our history of economic disasters created by the financial sector:

- ⇒ *The Panic of 1772*
- ⇒ *The Collapse of 1792*
- ⇒ *Land Speculation Panic, 1796*
- ⇒ *The Crisis of 1819*
- ⇒ *The Panic of 1837*
- ⇒ *The Panic of 1857*
- ⇒ *The Long Depression of 1873*
- ⇒ *The Collapse of 1893*
- ⇒ *The Panic of 1901*
- ⇒ *The Panic of 1907*
- ⇒ *The Great Depression, 1929*
- ⇒ *The Savings and Loan Collapse, 1987*
- ⇒ *The Hi-Tech Bubble Collapse, 2000*
- ⇒ *The Collapse of Wall Street and the Banks (The Great Recession), 2008*



Notice that there is one period, from the 1930s to 1987, where there were no financial crises or disasters. That was the period in which the New Deal laws and regulations kept the financial industry in check.

#### **Activity 4**

Discussion question: If banks and Wall Street keep causing crises, why don't we regulate them more?



## 5. Corporate Power and the Past 40 Years

From the end of World War II until 1972, rising economic productivity and rising wages went hand-in-hand. After 1972, productivity continued to increase, but average wages stayed roughly at the 1972 level. This raises two questions: 1) how did this huge change in the fortunes of working people happen and 2) how did working people improve their standard of living if their wages didn't increase?

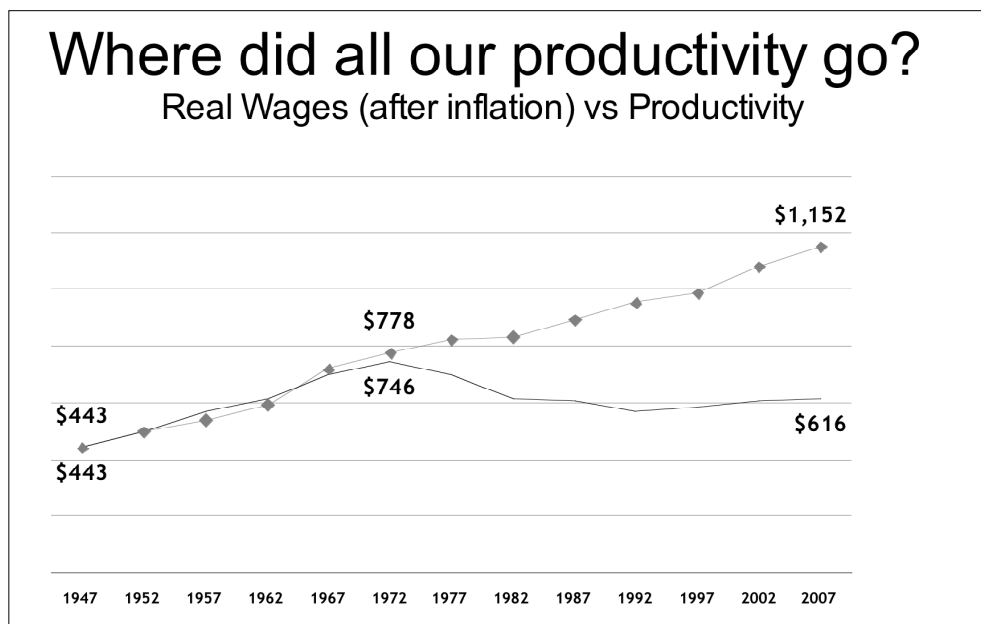
In the 1970s major corporations broke with the post-war policies that had benefited working people. They used their political and economic power to push through major deregulation. They attacked unions, which led to worse deals for workers. They punished areas with higher wages and standards by moving manufacturing jobs first to lower-wage areas in the US and then to lower-wage countries. Corporations and their political allies put more resources into an ideological campaign to stigmatize the role of government in our society. Every policy issue was embedded in a common frame, or narrative: government is the problem; social spending is out-of-control; social programs benefit people of color at the expense of the white working class; the free market is the solution; we all need to take more personal responsibility; businesses will create more jobs if government lowers taxes and cuts regulations.

Instead of getting higher wages comparable to rising productivity, working people were offered credit as the way to pay their bills. Interest on their debts enriched the large financial institutions, the top CEOs and financiers.

→ In 1973 the richest one percent received eight percent of the overall national income.

→ By 2006 the top one percent got 23 percent of the national income.

Source: *Real World Banking and Finance*, Economic Affairs Bureau of *Dollars and Sense*, 2010



Source: *The Looting of America* by Les Leopold. Chelsea Green Publishing, 2009.

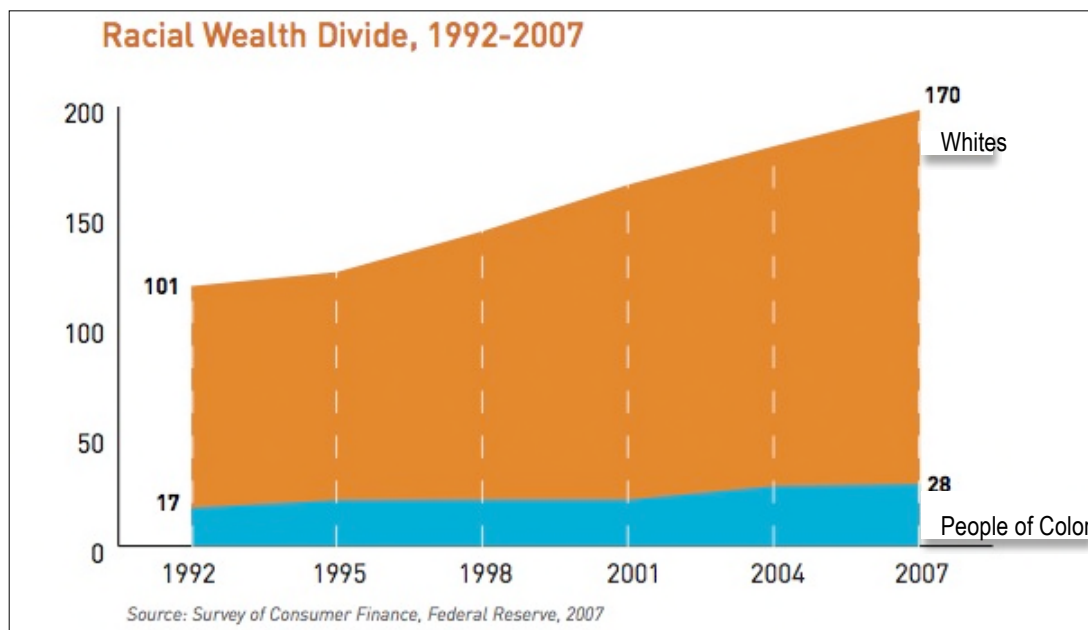
## Rising Inequality and Structural Racism.

*Structural racism* is a way of summing up the cumulative and compounded effects of an array of factors that systematically disadvantage people of color. For example, the racial wealth divide — where whites have many times the wealth of people of color — results from generations of discrimination and racial inequality. In a time of severe economic recession, such as the one we are experiencing today, race-based disparities make recession feel more like a depression for low-income people of color. This reflects the cumulative effects of racism in our history.

A few statistics to illustrate the income and wealth gap:

White average family income in 2006: \$65,866  
Black average family income: \$38,520

In 2004, for every dollar of average wealth white families held,  
Black families had a dime and Latino families a nickel.



Source: *Race and Recession: How Inequity Rigged the Economy and How to Change the Rules*, Applied Research Center, 2009.

### Activity 5

Think about yourself, your family, your friends and your neighbors. Overall, are you and they better off than 10 years ago, or 20 years ago?

## **6. It doesn't have to be this way: dealing with the Great Depression**

There was a period of time when banks and industry were more closely tied to public purpose: It happened because of the way we responded to the Great Depression.

### **Major Programs of the New Deal**

- *Regulation of the financial sector.* A key law forced banks to choose whether to be *commercial* banks or *investment* banks. The Banking Act of 1933 — Glass-Steagall — banned commercial banks from dealing with stocks and bonds and other securities. Commercial banks could get deposit insurance and access to the Federal Reserve's special deals. Investment banks did not get deposit insurance and they had to abide by strict transparency and disclosure requirements.
- *Creation of a social safety-net.* The Social Security Act of 1935 was the first comprehensive public insurance program designed to protect the elderly. The original Act also included unemployment insurance. It was the prototype for a number of social safety-net programs that followed, including Medicaid, Medicare and Aid to Families with Dependent Children.

Like some other New Deal programs, Social Security was marred by racial discrimination. Under pressure from Southern lawmakers, some areas of work were left out of the program. These areas were most often done by workers of color and by women, such as agriculture, domestic services, and librarians.

- *Housing programs.* New Deal programs made widespread homeownership possible. The federal government created programs that allowed mortgages with 30-year loans, lower down-payments and affordable interest rates. The government backed \$120 billion in home loans through the Federal Housing Administration between 1934 and 1962. Because of the various ways in which eligibility was tied to race, the vast majority of FHA-backed loans went to whites.

Government housing policies not only tolerated, but often encouraged discrimination and segregation. Federal lending guidelines spurred investment in new housing stock in the suburbs and devalued older housing stocks in central cities. The Federal Housing Authority in the 1930s started marking out some areas with a red line, telling banks that these areas were too risky for mortgages. These areas were predominately African American.

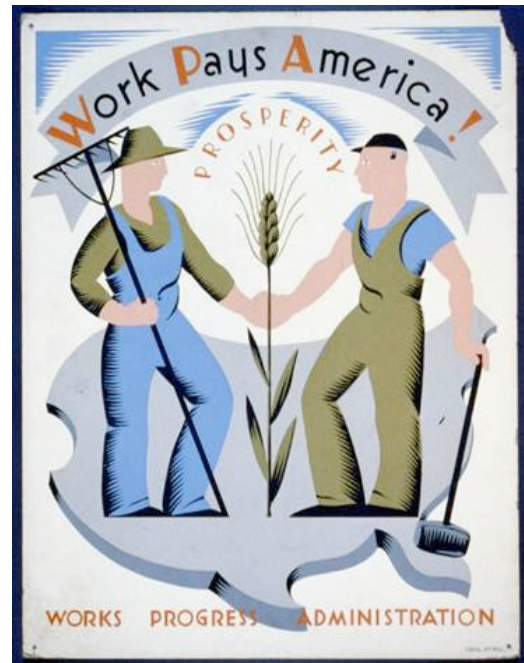
- *Labor reforms.* The **National Labor Relations Act** or **Wagner Act** established a federal agency, the National Labor Relations Board (NLRB), with the power to investigate and decide on charges of unfair labor practices and to conduct elections in which workers would have the opportunity to decide whether they wanted to be represented by a union. This major advance in labor law enabled workers to unionize much more freely. It also meant that, for the first time, the government recognized that workers had the right to form unions, and that employers did not have the right to interfere with union organizing.

Racial discrimination takes its toll on this set of reforms, as well. As with Social Security, a number of job categories were excluded, such as agriculture, to appease Southern segregationists.

### **WORKS PROGRESS ADMINISTRATION**

Established under the \$4.8 billion Emergency Relief Appropriation Act of 1935, the WPA lasted until 1943 and employed at least 8.5 million people at an average of \$2 a day. They built thousands of roads, bridges, schools, post offices and other public construction projects. In addition, under the WPA's Arts Program, thousands of unemployed writers, musicians, artists, actors, and photographers temporarily went on the federal payroll, producing public projects ranging from murals to national park guidebooks.

Source: *Survey of the History of the United State: New Deal Agencies* by Dr. Quintard Taylor, Jr. University of Washington



After World War II, the GI Bill provided college tuition for millions of returning veterans. The program was administered, however, by local draft boards, which often resulted in black veterans being denied the benefits of this federal program.

Ira Katznelson has called the period 1935-1965 the time when "affirmative action was white." The government programs mentioned above, as well as others, were at the center of the creation of the white middle class.

Source: *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth Century America* by Ira Katznelson, WW. Norton & Company, 2005

### **Activity 6**

People's movements have won some big victories, like the CRA. But big corporations and their allies have pushed politics far to the right and undercut many progressive victories and policies. Racism has made it harder for poor and working people, people of color and immigrants, to fight back against corporate power.

- How has racism been used to affect people's ideas about the role of government?
- How has racism been used to divide working and poor people, and people of color?
- How has racism been used to weaken support for policies, such as subsidized affordable housing, health care for all?
- How has racism been used to build support for reactionary politicians?

## **7. The Current Crisis and the New Economy**

We need to return to the demand that banks and big corporations should serve a **public purpose**. The most important **public purpose** of a bank, or any financial institution, is to provide credit and other services for the real economy — where people produce commodities and services for use in our communities, giving people jobs with good wages and benefits.

Let's look at one of the demands that NPA and our allies are putting forward for the Call to Action this coming week:

### **Invest responsibly and sustainably in our communities to create jobs**

Banks must enter into Community Reinvestment agreements with local community partners to stimulate economic development and job creation in hard-hit communities across the country. They must also offer all customers sustainable mortgages and restore small business lending to pre-crisis levels. Finally, they must stop funding polluting corporations and invest in green jobs and programs.

This demand insists that banks perform the public purpose for which they were chartered over 200 years ago. This demand is a stepping-stone and a pointer toward a new economy, an economy that works for all of us.

Where do we go from this demand? Here are a ideas to think about (please add others):

- Community reinvestment programs are a step toward democratizing the market. We can go further down this path, for example, by having community worker representatives on the corporate boards. After all, it's our money.
- Create public banks, like the Bank of North Dakota, owned by the state and designed to help small businesses and communities meet their credit needs.
- Grow alternative forms of banking by extending credit unions into institutions that are able to work with a community on community economic development.
- Create a national Public Infrastructure Bank, funded by the federal government, dedicated to rebuilding our infrastructure: schools, bridges, sewers, and railroads, and other facilities our communities need — and create millions of green jobs.

### **Activity 7**

Write down one or two things that you would like clarified, or want more information about, or had some concerns about. Tear off the bottom of this sheet and give it to the facilitator.

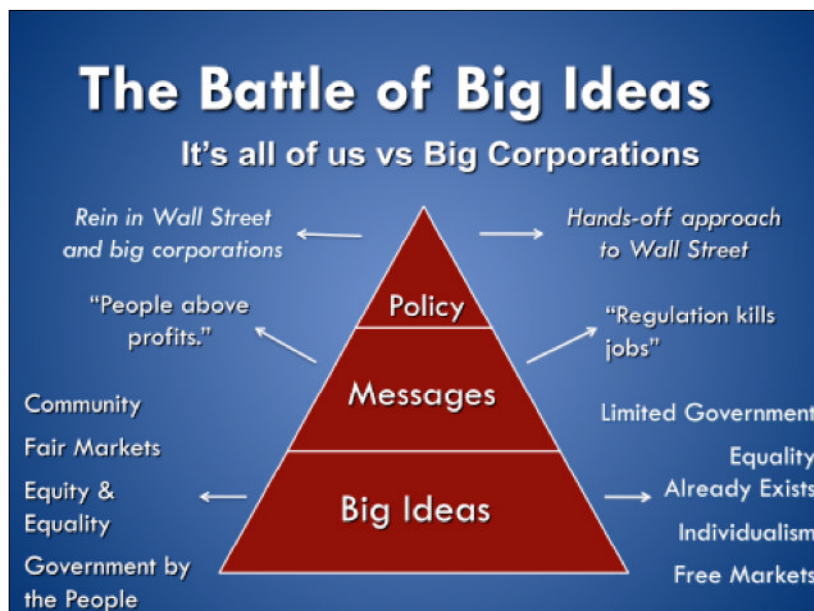
## NPA Beliefs and Big Ideas

### What we believe:

1. Every person has innate dignity, beauty, and worth, and thus is entitled to basic human rights;
2. All people, regardless of race, class, gender, and national origin must be ensured a high quality of life;
3. Society should be organized on the basis of mutual responsibility, cooperation, and community self-determination achieved through political and economic democracy.

### Our big ideas for systematic social change:

1. We must take back our power to use the government as our tool to promote the common good, correct the injustices of the past, and redistribute resources equitably and sustainably.
2. We must democratize the market to put people above profits.
3. We must enforce fundamental human rights standards that prevent exploitation of people and the environment.
4. We must take action to ensure racial, gender, economic, and immigrant justice in all social and economic systems.



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