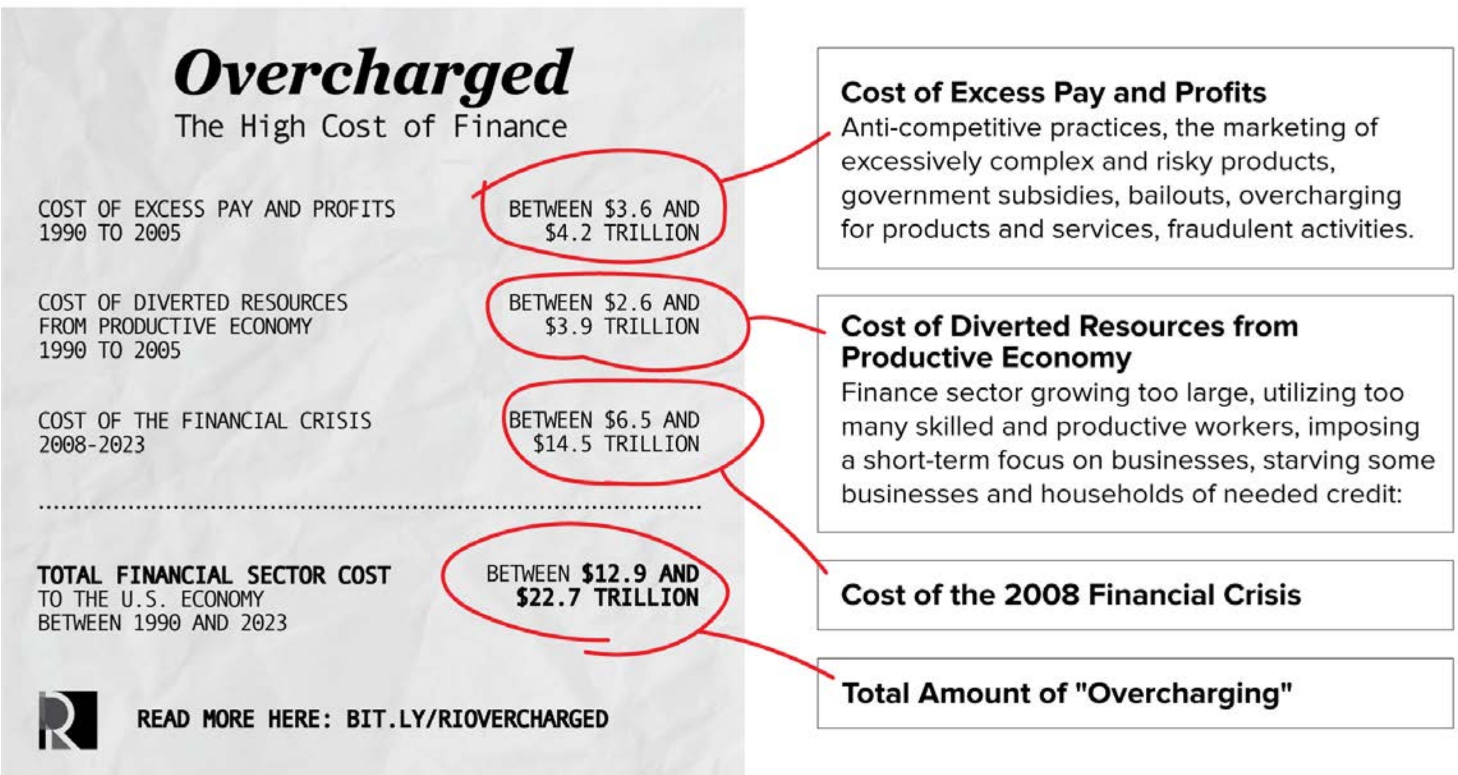
Overcharged THE HIGH COST OF HIGH FINANCE

We put a price tag on just how much money the finance sector has siphoned from our economy—and it's astronomical. Finance in its current form is actually a net drag on the American economy.

What has the flawed financial system cost the U.S. economy? How much have American families, taxpayers, and businesses been ″overcharged″ as a result of these questionable financial activities? The following findings —with all figures in inflation adjusted dollars—are from "Overcharged: The High Cost of High Finance," by Gerald A. Epstein and Juan Antonio Montecino, a Roosevelt Institute report (bit.ly/RIOvercharged). This is the first study to generate an overall estimate of costs to the economy over and above the benefits that the finance sector provides.



After decades of deregulation, the current U.S. financial system has evolved into a highly speculative system that has failed rather spectacularly.

A Productive Finance Sector...	Our Current Finance Sector...
Channels finance to productive investment	Channels finance to financial transactions and speculation
Helps families save for college, houses and retirement	Charges high fees, and delivers mediocre returns to families trying to save and invest
Helps businesses and households reduce risk (e.g., provide home, life and car insurance)	Often encourages businesses and households to take on excessive risks
Provides stable and flexible liquidity so families and businesses can make long-term investments, but can readily sell these assets for cash if needed	Creates booms and busts in liquidity that contributes to bubbles and crashes
Provides an efficient payments mechanism so households and businesses can buy goods and services easily and at a low transaction cost	Provides a payments systems that need to be backstopped by the government
Develops new innovations to do all these things better and cheaper	Often develops innovations that helps finance avoid taxes, avoid regulations, generate rents and hide excessive risks

To better understand the mechanisms and financial practices that have led to these excess costs, in this paper the authors describe in detail some of the ways in which banks and other financial institutions have overcharged for their services. Epstein and Montecino show how the asset management industry charges excessive fees and delivers mediocre returns for households trying to save for retirement; how private equity firms grab excessive levels of payments from pension funds and other investors while often worsening wages and employment opportunities for workers in the companies they buy; how hedge funds underperform; and how predatory lenders exploit some of the most vulnerable people in our society. From this bottom-up perspective, we can see more clearly how the levels of overcharging we identified at the macro level actually come about in practice.

These excess costs of finance can be reduced and the financial sector can once again play a more productive role in society. To accomplish this, we need three complementary approaches: improved financial regulation, building on what Dodd-Frank has already accomplished; a restructuring of the financial system to better serve the needs of our communities, small businesses, households, and public entities; and public financial alternatives, such as cooperative banks and specialized banks, to level the playing field.

(And it wouldn't hurt to lessen the undue influence of money in politics. The finance sector has spent billions of dollars on lobbying and other political contributions. It seems to have paid off...for financiers.)