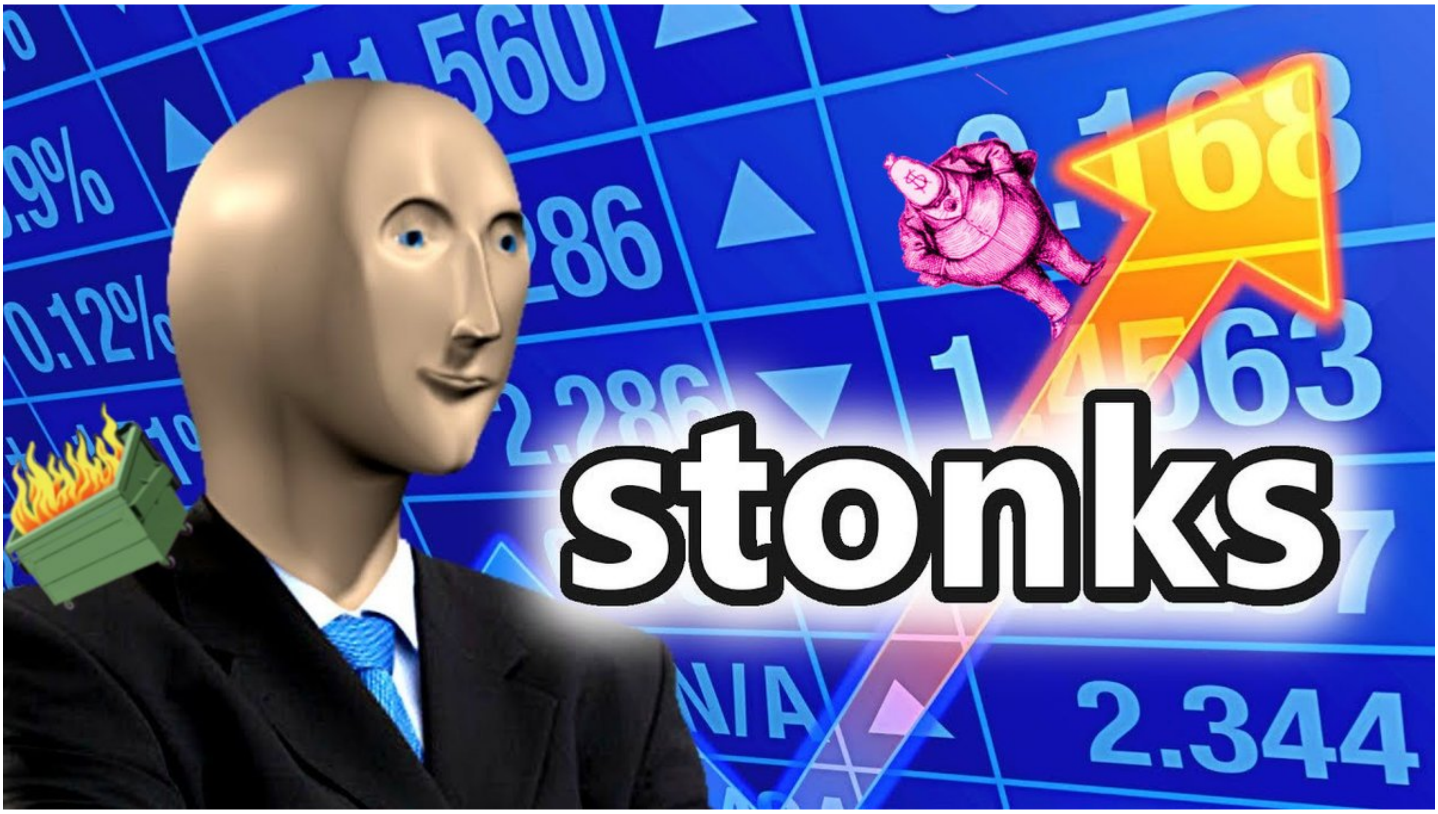
Twitter Thread by Cory Doctorow #BLM

Cory Doctorow #BLM
@doctorow

A couple days back, I wrote up my best understanding of what happened with /r/wallstreetbets and meme stocks like Gamestop, trying to show how all the different, seemingly contradictory takes on the underlying financial stuff could all be true.

https://t.co/xWzre4r0Yj

1/



In the days since, a new series of contradictory takes has emerged, these ones disputing the meaning of this bizarre financial spectacle, and likewise what response, if any is warranted as it unfurls.

2/

I think that all of these takes can also be true, and as with the trading itself, reconciling them requires that we widen the frame.

Let's start with Jimmy Carter.

3/

In 1978, Carter's IRS created the 401(k), a tax-sheltered account for people who wanted to gamble on stocks to fund their retirement.

That was a fringe proposition at best.

4/

The normal retirement system was a "defined benefits" pension where your employer guaranteed you a certain monthly percentage of your salary from retirement to death.

The vast majority of Americans wisely prefered a guaranteed payout to a tax-advantaged gambling account.

5/

Obviously, right? On the one hand, you have the guarantee of a pension (maybe even inflation-indexed); on the other, you have a bunch of bets, that, if they go wrong, leave you literally homeless and starving.

6/

When gamblers remortgage the family home and cash in the kids' college funds to play the tables, we consider them to have a mental illness, a pathological condition that harms them and the people around them.

7/

Giving up a defined benefits pension in favor of a 401k is just the same kind of bet - staking all the money that will support you when you exit the workforce on the movement of stocks and bonds.

Who would do that voluntarily?

8/

Pretty much no one. But the transition from defined benefits to 401k was not voluntary. Finance ghouls like Ethan Lipsig wrote memos to major employers like Hughes Aircraft showing them how they could ditch their pension obligations by moving workers to 401ks.

9/

In the 80s, Reagan created a bunch of legal tools that allowed employers to coerce their workforces into giving up the security of a pension and force them into gambling their salaries on the prayer of a win in the markets.

10/

This was insanely, amazingly great for the finance sector, in three ways:

I. It made companies more profitable. Guaranteeing that the workers whose labor made your company viable wouldn't spend their dotage starving and homeless is expensive.

11/

Helping fund wagers on shares is much cheaper. The finance sector represented the major shareholders of the companies that transitioned to 401ks. The savings were transferred to these shareholders and the finance sector got commissions.

12/

What's more, this temporary inflation of share prices disguised what was going on with the pension switcheroo: workers' defined benefits pensions were liquidated and turned into stocks, just as stocks were going up because their pensions had been liquidated!

13/

Their legs had been amputated out from under them, but so subtly that they didn't yet feel the pain - and now their bosses cooked their legs and snuck them into their dinner, and everyone marveled at how full they felt after that hearty, meaty meal.

14/

II. 401ks brought a lot of suckers to the table. The market was - and is - dominated by "sophisticated investors," AKA predators, who knew all the ways to fleece the rubes who had no idea how any of this worked.

15/

The predatory nature of finance only increased over time. Hedge funds, for example, exist to find unethical practices that are legal (thanks to loopholes in the rules) and exploit them until they are illegal.

16/

III. 401ks created a political force outside the finance sector that would lobby on its behalf. Transforming America into a nation of stockholders meant that workers had to choose between supporting rules that protected their jobs and rules that protected their retirement.

17/

For your pension account to grow, you had to support policies that permitted finance ghouls to offshore your job, or misclassify you as a contractor, or eliminate the safety rules that prevented you from being maimed, or take away your right to sue for compensation.

18/

Every time there's a particularly ghastly bankruptcy driven by PE or hedge funds - Toys R Us, Sears, etc - it emerges that at least some of that money is coming out of a union pension fund.

19/

That's marketization - turning the once obscure, boring business of market-based capital allocation into a matter of import to everyday people.

Marketization begat financialization.

20/

While marketization is primarily about capital allocation (who gets what money), financialization is about bets. Sometimes those bets are about things - businesses, houses, coal and timber - but things are limited. Mostly the financial market consists of bets on other bets.

21/

Bets are infinite. Every time you make a bet, you create inventory for a market in a bet on the outcome of your bet. And that's inventory for a new market: bets on the outcomes of bets on the outcomes of bets.

It's called Wall Street Bets for a reason.

22/

Bets need referees, someone who decides who the winner is. In sports, it's a major scandal if a referee is caught wagering on one of the teams in a match. In the financial markets, it's the norm - referees that lay wagers on the outcome of the contest they're overseeing.

23/

Let's take stock:

* Workers are forced to play the casino, and if their bets fail, they spend their old ages homeless and starving;

* The vast majority of casino games are wholly abstract - bets on bets on bets - and require layers of refs;

* the refs are all crooked.

24/

Every couple of years, we have a massive, systemic financial crisis, and every time that happens, the finance sector lobbies for a no-strings-attached bailout, abetted by suckers who hate the finance sector but fear starving in their old age.

25/

We're about to be engulfed in the second-largest crisis of our lifetime - the reckoning from trillions in capital market gains propped up by the Trump administration's policy of buying all corporate debt as a covid stimulus.

https://t.co/tNFjGSD95v

26/

(the largest crisis of our lifetimes is a few years off, as the climate emergency piles losses on losses, stranding tens of trillions in assets, from fossil fuels to obsolete gas-stations to literally underwater coastal real-estate to whole towns incinerated by wildfires)

27/

That's where we're at: a crooked casino that we've trusted our futures too, a crisis on the horizon, and a bunch meme-stock "players" who have thrown the normal weirdness of the market into stark relief through a spectacular stunt.

28/

A lot of people are angry at Robinhood, the stock-trading platform at the center of all this. Robinhood froze trading on meme stocks, and has only allowed it to come back in a useless, performative trickle that is seemingly calculated to prevent more meme-stock gamesmanship.

29/

Is Robinhood just another crooked ref? Yes…and no. The meme stock run upset the stable cheaters' equilibrium whereby cheating never escalated to the point where the game just collapsed.

For example, the total short position on Gamestop exceeds its total stock issuance.

30/

Translation: there were more Gamestop shares promised between bettors than exist. When the game stops, all those promises come due, and they literally can't be paid off because there aren't enough tokens in circulation to settle all the debts.

31/

Robinhood halted trading in part because the big fish upstream of Robinhood also halted trading, because they have even more at risk than Robinhood does if the game collapses - they the refs for MANY players, all the same size as Robinhood or larger.

https://t.co/6eSpIv9pup

32/

But remember, the refs are cheating. And they are both downstream and upstream from other games in which the refs are also cheating.

33/

And the games, as a whole, encompass our economy, including the solvency of the "real economy" (the people who make masks, deliver groceries and drive ambulances), and whether you spend your old age homeless and starving.

34/

So the people who say, "Don't blame Robinhood, they didn't halt trading to help billionaires, they halted trading to prevent the game from collapsing are right."

But they're not the only ones who are right.

35/

Also, there's the people who say that meme stocks aren't making money for little guys at the expense of the big guys. They're right too.

First, because these stocks will all need to be converted to cash, and that means selling them.

https://t.co/YcGLFT3stc

36/

When the selloff starts, the price will plunge, because even if the stock was undervalued before, it's certainly overvalued now. Every bubble produces wealth for its early bettors who sell out to later players who lose everything when they can't find a sucker later on.

37/

From Beanie Babies to subprime, bubbles burst and leave suckers holding the bag. If you just heard about meme stocks last week, you're too late to make money off of them.

38/

There's another version of the "this isn't little guys, it's big whales" that's ALSO true: the main beneficiary of the meme stock runs is giant funds who magnified and the bets from r/wallstreetbets and got out smart and fast.

https://t.co/biDxNTjerI

39/

> it's hard to say this without sounding like you stan for Cooperman or Griffin, but any retelling of the past week that doesn't tell you how, past the retail ignition, the rocket ship was mostly intra- fast money warfare, isn't telling you the truth
>
> — zatapatique (@zatapatique) January 28, 2021

So given all this, what can we make of calls (from parties as varied as @AOC and @tedcruz) to investigate Robinhood and other retail brokerages to see whether they're honest refs, or in the tank for billionaires?

40/

At @nakedcapitalism, @yvessmith calls this a "fatuous uproar," saying that the Senate has more important things to do during the racing-out-of-control pandemic than to investigate a literal penny-ante grift.

https://t.co/eDrQxtMoVu

41/

Do we really care who the winner is in "a beauty contest between Cinderella's ugly sisters" ("clueless new gen day traders versus clumsy shorts")?

Smith is right too.

42/

A speculator-v-speculator contest that falls apart when the crooked ref halts play to prevent collapse - who cares who "wins?"

But here's how they can all be right - the "who cares" and the "goliath v goliath" and the "bubble" and the "Robinhood is a plutes' honeypot."

43/

IF there's hearings, and IF those hearings expose the absurdity and corruption of the system, THEN there is a chance to build the political will to make real, systemic changes when the crisis comes.

44/

And there's a real crisis coming: two, in fact. The covid junk bond financial crisis, which is due very soon, and the climate crisis stranded asset emergencies, which will unroll with increased tempo and intensity for decades to come.

45/

The half-century cycle of "addressing" finance crises by increasing financialization MUST stop.

If the meme stock spectacle gets us to pay attention to hearings that reveal the irredeemable rot of the system, then it's a unique chance to spread REAL "financial literacy."

46/

And that literacy is the necessary (but insufficient) precursor to taking action when the time comes - and the time is certainly coming soon.

47/

If you'd like to link to a version of this essay as a blog post on a site with no ads, trackers, or surveillance, here's a permalink on Pluralistic:

https://t.co/M8KOqi1GX8

eof/