

CHAPTER 19 RESOURCE DEVELOPMENT:

PAPER CHASE: STOCK MARKETS, FINANCIALIZATION, AND PENSIONS

CHAPTER 19



Investment vehicles

Financialization and the gap
between productive work
and speculation

Pensions: Paygo (eg CPP) &
Pre-funded (defined vs
contribution)

LEARNING GOALS:

Have students develop an understanding of:

- 5) Investment vehicles available to individuals and corporations
- 6) Financial speculation and its consequences
- 7) The promise and challenge of harnessing pensions for economic and climate justice

SUCCESS CRITERIA:

I will know I am successful when I can:

- Understand the difference between investment vehicles including stock permutations, GICs, mutual funds, tax-free savings accounts, registered plans and what factors to consider when deciding how to invest as an individual and a corporation.
- Develop knowledge of pension funds, including the difference between “Paygo” and “Prefunded”, defined contribution vs defined benefits, CPP, and how they connect with private retirement savings possibilities.
- Know how socially responsible investing connects with an investment portfolio, along with the challenges associated with ethical investment on an individual level, and as part of a pension fund.
- Have an understanding of the term “speculation”, and an assessment of the impact of speculation on economic stability.
- Begin an analysis of whether climate change can be addressed within capitalism, and, if not, the ethics of investment & profit within a system that cannot respond to this challenge.

ACTIVITIES BRAINSTORM:

- Create a summary chart that compares financial resources available to companies, and those available to individuals. Key Terms component.
- A TEDx talk that explores the impact of financialization on the average Canadian
- A short essay that explores the relationship between neoliberalism and retirement savings
- Culminating: Inquiry project that explores the complexities of social investing, including using public pensions to build a more sustainable and just economy, with greater social control. Debate?

RESOURCES:

- www.cbsnews.com/news/social-investing-how-altruistic-funds-can-be-bad-for-you
- www.newyorker.com/business/currency/does-divestment-work
- newrepublic.com/article/121848/does-divestment-work
- www.theguardian.com/global-development/2016/mar/18/responsible-investing-financial-winner-human-rights-strategy
- www.theglobeandmail.com/globe-investor/ethical-investors-embrace-a-new-yardstick/article23333848
- Excerpt from Ralston Saul *The Doubter's Companion: MONEY, THE VOLATILIZATION OF*.
- Excerpts from *The Inside Job*
- [Globe and Mail pension article](#)
- [Norwegian policy](#)

MINDS ON:

“Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes the byproduct of the activities of a casino, the job is likely to be ill-done.”—John Maynard Keynes, *British Economist* (1936).

Refer to comic on page 264 *Economics for Everyone: A Short Guide to the Economics of Capitalism*, 2nd Edition Paperback—Jun 15 2015, by Jim Stanford

Play a few rounds of online roulette on: www.thepcmanwebsite.com/media/roulette

Can you imagine if the economy was run like this?

ACTION:

- 1) Before the lesson, have students complete the reading of Chapter 19 and the companion handout. Ensure you have a computer lab booked for research purposes.
- 2) Screen the following video on the link between speculative investment and the global recession of 2008. Ideally, students will have some historical context for the recession at this point: www.youtube.com/watch?v=JVSpPX-terd0. This video serves to contextualize both the historical moment we are in, and the consolidation activity. In capitalism, investment is supposed to be productive, but speculation can make global markets seem more like a casino game than a rational location of social and business decisions.
- 3) Begin consolidation activity.

CONSOLIDATION:

Exploring ethical investing

Framework:

Rather than use a traditional debate structure to arrive at a resolution conclusion, students will use a consensus-based decision-making template, in this case one that is Quaker-based, to come to a decision about a complex issue.

From Wikipedia: Key components of Quaker-based consensus include a belief in a common humanity and the ability to decide together. The goal is “unity, not unanimity.” Ensuring that group members speak only once until others are heard

encourages a diversity of thought. The facilitator is understood as serving the group rather than acting as person-in-charge. In the Quaker model, as with other consensus decision-making processes, by articulating the emerging consensus, members can be clear on the decision, and, as their views have been taken into account, are likely to support it.[23]

The Group:

You are all citizens of a community called Oiratno, part of a larger federation of communities collectively called Adanac. Adanac also belongs to a global community on Planet Htrae that features an integrated financial network.

The Challenge:

Your community has allocated a portion of its GLP (gross local product) to investment funds that feature a broad basket of stocks. The investment fund is designed to provide community members with a comfortable retirement that features a pension with defined benefits, fully indexed to inflation. In this fund are stocks for companies that provide a range of products and services: smartphones, oil and gas, banks, communications tech, and groceries. Because your community is so small, you have partnered with a number of other Adanac communities to co-invest, in a partnership called APP (the Adanac Pension Plan). Your community's representation on this decision-making board is roughly $\frac{1}{6}$.

Unfortunately, Oiratno citizens have grown increasingly aware that Planet Htrae is under threat from climate change. Scientific consensus has emerged that if the planet does not significantly reduce CO₂ emissions (a planetary bluehouse gas) in the next two years, the planet will suffer from warming effects that will have catastrophic consequences for every living thing within the next few decades.

A community member has brought the following motion to the group:

Be It Resolved That Oiratno requests the APP divest from any investment in fossil fuels stock.

The community will apply its consensus-based decision making model to this motion, and attempt to arrive at unity.

The Task:

You will use the following resources to prepare for the meeting:

- a) Economics For Everyone Chapter 19
- b) Excerpts from This Changes Everything
- c) Excerpts from The Doubter's Companion
- d) The readings from the list provided below
- e) Class discussions

A facilitator will be chosen two weeks prior to the event. The class before the event, a couple of particularly interested community members will prepare lobby sheets that attempt to sway the group in the direction that they would like the decision to be made (these roles will be reserved for students who know that they cannot be there on the day of the decision). The rest (+ absent students) will be required to produce and submit a "cheat sheet" consisting of highlights and speaking notes from the readings on the day of the decision.

On the day of the decision-making process, the following procedures and rules will be adopted:

The following aspects of the Quaker model can be effectively applied in any consensus decision-making process, and is an adaptation prepared by Earlham College:

- Multiple concerns and information are shared until the sense of the group is clear.
- Discussion involves active listening and sharing information.
- Norms limit number of times one asks to speak to ensure that each speaker is fully heard.
- Ideas and solutions belong to the group; no names are recorded.
- Ideally, differences are resolved by discussion. The facilitator (“clerk” or “convenor” in the Quaker model) identifies areas of agreement and names disagreements to push discussion deeper.
- The facilitator articulates the sense of the discussion, asks if there are other concerns, and proposes a “minute” of the decision.
- The group as a whole is responsible for the decision and the decision belongs to the group.
- The facilitator can discern if one who is not uniting with the decision is acting without concern for the group or in selfish interest.
- Ideally, all dissenters’ perspectives are synthesized into the final outcome for a whole that is greater than the sum of its parts.
- Should some dissenter’s perspective not harmonize with the others, that dissenter may “stand aside” to allow the group to proceed, or may opt to “block”. “Standing aside” implies a certain form of silent consent. Some groups allow “blocking” by even a single individual to halt or postpone the entire process

Key components of Quaker-based consensus include a belief in a common humanity and the ability to decide together. The goal is “unity, not unanimity.” Ensuring that group members speak only once until others are heard encourages a diversity of thought. The facilitator is understood as serving the group rather than acting as person-in-charge. In the Quaker model, as with other consensus decision-making processes, by articulating the emerging consensus, members can be clear on the decision, and, as their views have been taken into account, are likely to support it.

cultivate.coop/coop-wiki/images/e/e7/Consensus_Decision-Making.pdf is a good reference for further information about consensus decision-making.

The Expectations:

- You will come to class having done your readings, including the lobby sheets produced by your peers.
- You will submit the reading feedback form on the day of the decision.
- You will have read the Quaker-consensus process and pathways to a decision.

The Readings:

- *Economics For Everyone*, Chapter 19.
- www.cbsnews.com/news/social-investing-how-altruistic-funds-can-be-bad-for-you
- www.newyorker.com/business/currency/does-divestment-work
- newrepublic.com/article/121848/does-divestment-work
- www.theguardian.com/global-development/2016/mar/18/responsible-investing-financial-winner-human-rights-strategy
- www.theglobeandmail.com/globe-investor/ethical-investors-embrace-a-new-yardstick/article23333848
- Excerpt from Ralston Saul *The Doubter's Companion: Speculation*
- Excerpt from Naomi Klein's *This Changes Everything*
- Lobby Sheets from your peers

Rubric:

Criteria	Level 1	Level 2	Level 3	Level 4
Knowledge Demonstrate an understanding of financial investment vehicles and pension plans, as well as core content from the readings.	Demonstrates an understanding of financial investment vehicles and pension plans, as well as core content from the readings with limited effectiveness.	Demonstrates an understanding of financial investment vehicles and pension plans, as well as core content from the readings with some effectiveness.	Demonstrates an understanding of financial investment vehicles and pension plans, as well as core content from the readings with considerable effectiveness.	Demonstrates an understanding of financial investment vehicles and pension plans, as well as core content from the readings with a high degree of effectiveness.
Thinking Analyse the role of collective investments decisions in guiding climate considerations that reflect community goals.	Analyses the role of collective investments decisions in guiding climate considerations that reflect community goals with limited effectiveness.	Analyses the role of collective investments decisions in guiding climate considerations that reflect community goals with some effectiveness.	Analyses the role of collective investments decisions in guiding climate considerations that reflect community goals with considerable effectiveness.	Analyses the role of collective investments decisions in guiding climate considerations that reflect community goals with a high degree of effectiveness.
Communication Clearly communicate through chosen role the importance of investment decisions in addressing climate change goals.	Clearly communicates through chosen role the importance of investment decisions in addressing climate change goals with limited effectiveness.	Clearly communicates through chosen role the importance of investment decisions in addressing climate change goals with some effectiveness.	Clearly communicates through chosen role the importance of investment decisions in addressing climate change goals with considerable effectiveness.	Clearly communicates through chosen role the importance of investment decisions in addressing climate change goals with a high degree of effectiveness.
Application Apply the concepts of investment, ethics and social justice during debate (or via lobby sheets)	Applies the concepts of investment, ethics and social justice during debate with limited effectiveness.	Applies the concepts of investment, ethics and social justice during debate with some effectiveness.	Applies the concepts of investment, ethics and social justice during debate with considerable effectiveness.	Applies the concepts of investment, ethics and social justice during debate with a high degree of effectiveness.

EXPECTATIONS

BAI3E

- Sources of Financing
- identify the sources of funds available to finance a service business (e.g., family, investors, banks, government);

BBI10

- Business Fundamentals
- demonstrate an understanding of how businesses respond to needs, wants, supply, and demand
- describe the concepts of, and conditions that affect, supply and demand;
- explain how needs and wants create opportunities for business

BBI20

- demonstrate an understanding of ethics and social responsibility in business;
- demonstrate an understanding of the benefits and challenges for Canada in the field of international business
- demonstrate an understanding of how international business and economic activities increase the interdependence of nations.
- analyse the ways in which ethical considerations affect international business decisions;

BDI3C

- Developing and Completing a Venture Plan for the Proposed Business
- The Financial Plan
- identify sources and methods of financing their chosen venture (e.g., government loans, private investors, bank loans, loans from family and friends, credit from suppliers).

CIE3M

- B4.5 compare various investment choices (e.g., stocks, bonds, guaranteed investment certificates, mutual funds, tax-free saving accounts, registered retirement income funds) and explain the importance of diversifying investments Sample questions: “What are the differences between stocks and bonds? Why might an individual want to have a combination of stocks, bonds, and mutual funds in an investment portfolio?” “What is the importance of socially responsible investing? How can you determine if an asset manager is practising such investing?”

CIC4E

- B2.4 describe some factors (e.g., liquidity, rate of return, risk, disposable income, age) that influence individuals’ decisions about preferred types of savings and investments (e.g., tax-free savings accounts, guaranteed investment certificates [GICs], bonds, stocks, RESPs, RRSPs) Sample questions: “What are the advantages and disadvantages of investing in a stock, buying a GIC, or saving money under your mattress?” “Why might the decisions you make now with respect to savings be different from those your parents are making?” “What level of risk is associated with different types of investments?”

CIE3M

- B4.5 compare various investment choices (e.g., stocks, bonds, guaranteed investment certificates, mutual funds, tax-free saving accounts, registered retirement income funds) and explain the importance of diversifying investments Sample questions: “What are the differences between stocks and bonds? Why might an individual want to have a combination of stocks, bonds, and mutual funds in an investment portfolio?” “What is the importance of socially responsible investing? How can you determine if an asset manager is practising such investing?”
- D2.2 analyse how governments in Canada respond to economic problems (e.g., with reference to changes in taxes, cuts to or increases in spending/ services, wage/price controls, changes to minimum wages or to pension or unemployment benefits), including the problems caused by economic fluctuations (e.g., recession, recovery, boom) Sample questions: “What might happen if a government decided to raise minimum wages during a recession?” “When and why might a government consider lowering sales taxes?” “Why are governments concerned with the potential effects of inflation? What are some ways in which governments attempt to control inflation?”

- D3.3 explain competing perspectives of various economic citizens (e.g., baby boomers, youth, taxpayers, shareholders, business people, people with disabilities, people from different classes) on the value of government services/expenditures in Canada (e.g., expenditures on health care, social services, education, pensions, transportation, parks, infrastructure)

CIA4U

- D2.4 explain how fiscal policies of governments in Canada influence the economic decisions of individuals and organizations, and analyse the macroeconomic consequences of some of these policies (e.g., with reference to changes to pension plans and/or employment insurance, changes in transfer payments to provinces, Canada Mortgage and Housing Corporation policy, eco fees, income and corporate tax rates, tariffs)
- C2.3 evaluate the impact of some key socio-economic trends on economic policy in different countries (e.g., trends related to income inequality, pensions, unemployment, aging populations in some countries, gender roles/relations, immigration, increasing public debt) Sample questions: “How are different governments addressing trends related to labour shortages? What impact do policies with respect to migrant workers have in these countries?” “How does an increase in public debt affect the policy options and decisions of various governments?”

CIC4E

- B1.3 compare wages, salaries, and benefits typically offered in different types of employment (e.g., full-time, part-time, and contract employment; apprenticeships; service, sales, and/or professional positions; unionized and nonunionized jobs; base salary and commissions, tips, and/or bonuses), and explain some ways in which they might affect individuals’ financial planning
- E1.2 describe, and assess the effectiveness of, some programs and services that are intended to address economic inequality in Canada (e.g., minimum wages, social assistance, employment insurance, pensions, public education, universal health care, public housing programs, Habitat for Humanity, Goodwill, skills retraining, micro-credit or social finance initiatives, new business grants, food banks) Sample questions: “Which programs/services do you think are the most effective in addressing economic inequality in Canada? Do you think these programs/services are adequate? If not, what more do you think should be done?”

CIE3M1

- B1.1 explain the concepts of scarcity and opportunity costs, and analyse how individuals, governments, and organizations apply these concepts as they make economic choices
- B3.1 compare how different economic systems (i.e., market, mixed, traditional, command) answer the three fundamental economic questions about production (i.e., what, how, and for whom to produce)
- B3.2 analyse how different political-economic systems (e.g., capitalism, socialism) respond to challenges associated with stability and variability
- B3.3 analyse how governments in Canada prioritize competing economic goals when responding to economic challenges
- C1.4 analyse how, in a market system, different stakeholders value public and collective goods
- C1.5 explain the causes of Canadian government intervention in market systems

CLN4C

- E2.3 describe legal obligations that apply to all Canadians – workers and employers – in the workplace (e.g., requirements to: honour contracts, comply with confidentiality agreements, meet health and safety standards, comply with quality control standards, comply with human rights codes, establish and follow codes of professional conduct and practice, file taxes, contribute to the Canada Pension Plan)

GLC2O

- articulate personal, learning, community, and occupational goals, taking into consideration the results from their personal profile and their exploration of selected occupations;
- produce a preliminary career plan that identifies secondary school courses, activities in the school and community, and postsecondary education options that will help them achieve their goals;

TDJ3O

- C1. demonstrate an understanding of environmentally responsible design practices and strategies, and apply them in the technological design process and related activities;
- C2. describe how society influences technological innovation and how technology affects society.

TDJ4M

- C1. demonstrate an understanding of environmentally responsible design practices, and apply them in the technological design process and related activities;
- C2. analyse the relationship between society and technological development.

TDJ4O

- C1. demonstrate an understanding of environmentally responsible design practices and strategies, and apply them in the technological design process and related activities;
- C2. research and describe the relationship between society and technological development.

TEJ2O

- C1. identify harmful effects of the widespread use of computers and associated technologies on the environment, as well as agencies that reduce these effects;
- C2. identify effects of the widespread use of computers and associated technologies on society.

TEJ3M

- C1. describe environmental issues related to the widespread use of computers and associated technologies;
- C2. describe societal issues related to the widespread use of computers and associated technologies.

TEJ3E

- C1. describe environmental issues related to the widespread use of computer technology;

TEJ4M

- C1. analyse environmental issues related to the widespread use of computers and associated technologies, and apply strategies to reduce environmental harm from computer use;
- C2. analyse societal issues related to the widespread use of computers and associated technologies.

TEJ4E

- C1. describe environmental issues related to the widespread use of computer technology, and apply strategies to reduce environmental harm from computer use;
- C2. analyse societal issues related to the widespread use of computer technology.

CHAPTER 19

PAPER CHASE: STOCK MARKETS,
FINANCIALIZATION, AND PENSIONS



READING RESPONSE

BANKS AREN'T THE ONLY SOURCE OF INVESTMENT FUNDS FOR COMPANIES, THERE ARE A WIDE RANGE OF FINANCIAL RESOURCES AVAILABLE TO PAY FOR GROWTH AND INVESTMENT.

Bank Loans:

Corporate Bonds:

Equities:

DEFINE KEY TERMS

Key term	Definition
Shares	
Stock Markets	
Leverage	
Securitization	
Share Buy-Backs	
Speculation	
Derivatives	



photo: blogto.com/events/john-ralston-saul-and-the-comeback-of-aboriginal-peoples

MONEY, THE VOLATIZATION OF: The act of causing wealth to disappear from an economy.

— John Ralston Saul, *The Doubter's Companion*

Lending used to be a process of exchange between the lender and the person receiving the loan. With the invention of securities, that direct connection is eroded. Stanford writes that securities are bought and sold on secondary markets (rather than the original loan that came directly from the bank), and that this trading is “supposed to serve a productive purpose: it makes it easier for companies to mobilize financial resources (from individual investors) for investment projects, and that this secondary market makes individual investors more likely to invest, as they can escape the loan obligation whenever they wish. This is the same argument you hear from sports teams and their season ticket sales... having a resale market makes it less risky for potential season ticket holders to commit.

The problem is, once securitization happens, speculation can take over. Speculation is divorced from productive work. Speculators like volatility (instability) in the markets because that's where profit can be made. There is also a tremendous amount of creative thought that goes into the design of securitized products. Wouldn't it be nice if the creative energy that went into designing nonproductive financial assets, advertising, etc., instead was placed somewhere that was useful for society and created justice, including climate justice?

MISPLACED CREATIVITY

Mutual Funds:

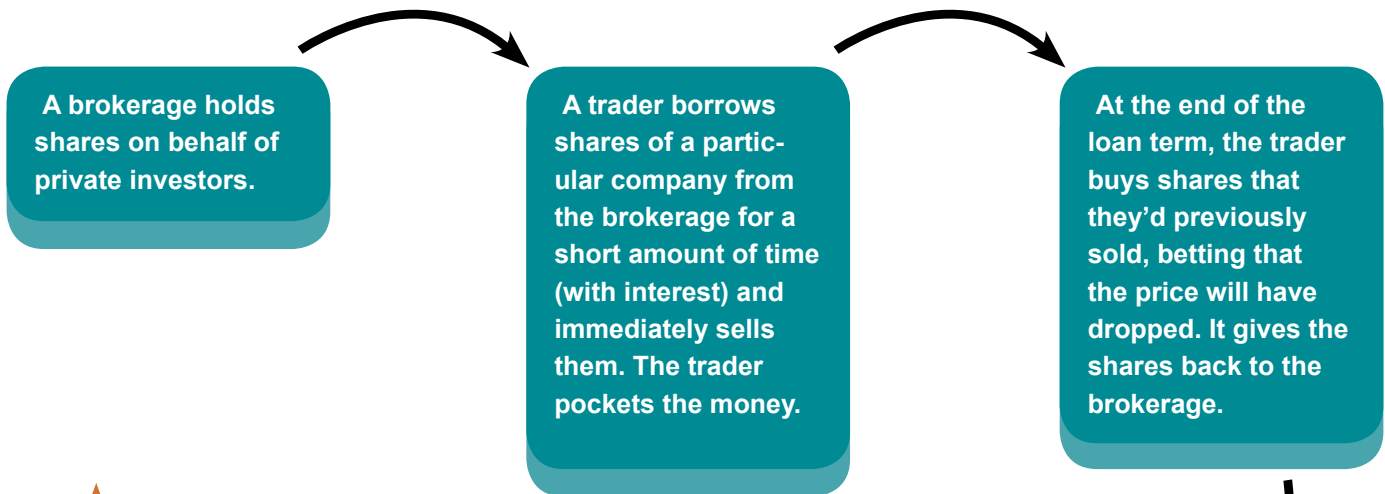
Structured Investment Vehicle (SIV):

Collateralized Debt Obligation (CDO):

Credit Default Swap (CDS):

Perhaps no better example of the non-productive potential of securities trading exists than that of shorting, where investors bet on a company to fail, in order to make a profit.

HOW DOES SHORTING WORK?



Best case scenario:

Brokerage: earns interest from loan and any dividends during loan time.

Short-seller: makes \$\$ from drop in price of stock over term of stock loan.

Actual owner of stock: no benefit, consequence,

Explain, in your own words, how a short-seller makes money from a drop in stock price:

A short-seller borrows 100 shares of stock from a brokerage and immediately sells it for \$10 each. Unfortunately for the shorter, the stock price starts to rise. Fearing further increases, the shorter buys back the stock on the open market for \$24 per share. If the brokerage skims about \$30 from the transaction, what is the total percentage loss to the shorter?

If this amount is greater than 100%, how does this illustrate the risk of short-selling, as opposed to long-term investing?