JOSEPH E. STIGLITZ

WINNER OF THE NOBEL PRIZE

THE GREAT DIVIDE

UNEQUAL SOCIETIES AND WHAT WE CAN DO ABOUT THEM

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JOSEPH E. STIGLITZ

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To my many readers, who have responded with such enthusiasm
to my writings on inequality and opportunity.

To my children, Siobhan, Michael, Jed, and Julia,
and my wife, Anya, all of whom, in their own way,
are striving to create a fairer and better world.

And to the scholars and activists everywhere who work with
such dedication for social justice.

Thank you for the inspiration and encouragement you have provided.

Contents

INTRODUCTION

NO ONE TODAY CAN DENY THAT THERE IS A GREAT DIVIDE in America, separating the very richest-sometimes described as the 1 percent—and the rest. Their lives are different: they have differe worries, different aspirations, and different lifestyles.

Ordinary Americans worry about how they will pay for the college education of their childre about what happens if someone in the family has a serious illness, about how they are to manage the retirement. In the depths of the Great Recession, tens of millions worried whether they would be ab to keep their house. Millions weren't able to do so.

Those in the 1 percent—and even more the upper .1 percent—debate other issues: what kind of j airplane to buy, the best way to shelter their income from taxes (What happens if the United Stat forces the end to bank secrecy in Switzerland—will the Cayman Islands be next? Is Andorra safe? On the beaches of Southampton they complain about the noise their neighbors make as they helicopt in from New York City. They worry, too, about what would happen if they fell off their perch—ther is so far to fall, and on rare occasions it does happen.

Not long ago I found myself at a dinner party hosted by a bright and concerned member of the percent. Aware of the great divide, our host had brought together leading billionaires, academics, ar others who were worried about inequality. As the evening's early chitchat burbled on, I overheard or billionaire—who had gotten his start in life by inheriting a fortune—discuss with another the proble of lazy Americans who were trying to free ride on the rest. Soon thereafter, they seamless transitioned into a discussion of tax shelters, apparently unaware of the irony. Several times in th evening, Marie Antoinette and the guillotine were invoked as the gathered plutocrats reminded eac other of the risks of allowing inequality to grow to excess: "Remember the guillotine" set the tone f the evening. And in that refrain they confessed a central message of this book: the level of inequali in America is not inevitable; it is not the result of inexorable laws of economics. It is a matter o policies and politics. It was, they seemed to be saying, possible for these powerful men to o something about inequality.

This is but one of the reasons why concern about inequality has become urgent even among the percent: increasing numbers of them realize that sustained economic growth, upon which the prosperity depends, can't happen when the vast majority of citizens have stagnant incomes.

Oxfam brought home forcefully the extent of the world's growing inequality to the annual gatherin of the world's elite in Davos in 2014, pointing out that a bus with some 85 of the world's billionaire had as much wealth as the bottom half of its population, some three billion people.[1] By a year later th bus had shrunk—it required only 80 seats. Just as dramatic, Oxfam found that the top 1 percent of th world now owned nearly half the world's wealth—and are on track to own as much of the rest of th 99 percent combined by 2016.

The great divide has been a long time in coming. In the decades after World War II the countr grew at its fastest pace, and the country grew together. While all segments saw an increase in the incomes, it was shared prosperity. Incomes of those at the bottom grew faster than the incomes o those at the top.

It ~~was a golden age in America, but to my young eyes there appeared darker edges. Growing~~ up o the southern shore of Lake Michigan, in one of the country's iconic industrial towns, Gary, Indiana, saw poverty, inequality, racial discrimination, and episodic unemployment as one recession afte another battered the country. Labor strife was common as workers struggled to get a fair share o America's deservedly lauded prosperity. I heard rhetoric about America being a middle-class societ but for the most part, the people I saw occupied the lower rungs of that supposed middle-class societ and their voices were not among those that were shaping the country.

We were not rich, but my parents had adjusted their lifestyle to their incomes—and in the end th is a big part of the battle. I wore hand-me-down clothes from my brother that my mother had alwa bought on sale, with an eye toward durability rather than saving money in the short run: penny wi but pound foolish, she would say. When I was growing up, my mother, who had graduated from th University of Chicago in the midst of the Great Depression, helped my father in his insuran business. When she was working, we were left in the care of our "help," Minnie Fae Ellis, a lovin hardworking, and bright woman. Even as a 10-year-old, I was disturbed: I wondered, Why did sh have only a sixth-grade education, in a country that was supposedly so rich and that supposed offered opportunities for all? Why was she taking care of me rather than her own children?

After I graduated from high school, my mother pursued her life's ambition—going back to scho to get teacher certification and teach elementary school. She taught in the Gary public schools; white flight set in, she became one of the few white teachers in what had turned into a de fac segregated school. After she was forced to retire at the age of 67, she started teaching on the northwe Indiana campus of Purdue University, working to make sure that there was access for as many a possible. In her 80s, she eventually retired.

Like so many of my contemporaries, I was impatient for change. We were told that changin society was difficult, that it took time. Even though I had not suffered the kinds of hardships that m peers faced in Gary (apart from a small amount of discrimination), I identified with those who had. would be decades before I studied in detail the statistics concerning income, but I sensed that Americ was not the land of opportunity that it claimed to be: there was remarkable opportunity for some, b little for others. Horatio Alger, at least in part, was a myth: many hardworking Americans would nev make it. I was one of the lucky ones for whom America did offer opportunity: a National Mer Scholarship to Amherst College. More than anything else, *that* opportunity opened up a world of oth opportunities over time.

As I explain in "The Myth of America's Golden Age," in my junior year at Amherst, I switched m major from physics to economics. I was driven to find out why our society worked the way it did. became an economist not just to understand inequality, discrimination, and unemployment but also, hoped, to do something about these problems plaguing the country. The most important chapter of m Ph.D. thesis at MIT, written under the supervision of Robert Solow and Paul Samuelson (both o whom were later to receive Nobel Prizes), focused on the determinants of the distribution of incom and wealth. Presented in a meeting of the Econometric Society (the international association economists focusing on mathematics and statistical applications to economics) in 1966 and publishe in its journal, *Econometrica*, in 1969, it still often serves half a century later as a framework f thinking about the subject.

Readership for an analysis of inequality was limited, both among the general public and eve among economists. People were not interested in the subject. Within the economics profession, the sometimes was outright hostility. This remained true even as the country's inequality began t increase markedly, beginning around the time Reagan became president. One noted economist, University of Chicago Nobel Prize winner, Robert Lucas, put it forcefully: "Of the tendencies that a

harmful to sound economics, the most seductive and … poisonous is to focus on questions
distribution."[2]

Like so many conservative economists, he argued that the best way to help the poor was to increa the size of the nation's economic pie, and he believed that focusing attention on the small slice of th pie given to the poor would detract attention from the more fundamental issue of how to enlarge th pie. There is in fact a long tradition in economics that holds that the two issues (of efficiency an distribution, of the size of the pie and how it is divided) can be separated, and that the job of th economist was narrow, important, but hard: it was only to figure out how to maximize the size of th pie. The division of the pie was a matter of politics, something that economists should stay well cle of.

With stances like Lucas's so fashionable in the economics profession, it was little wonder th economists paid almost no attention to growing inequality in the country. They didn't pay muc attention to the fact that while GDP was growing, the incomes of most Americans were stagnatin This neglect meant that ultimately they couldn't provide a good explanation of what was going on the economy, they couldn't grasp the implications of growing inequality, and they couldn't devis policies that might put the country on a different course.

That was why I so welcomed in 2011 the offer of *Vanity Fair* to bring the issues to a wid audience. The resulting article, "Of the 1 Percent, by the 1 Percent, for the 1 Percent," did have a f wider readership than my *Econometrica* article decades earlier. The new social order that my *Vani Fair* article discussed—the 99 percent of Americans who were in the same stagnating boat—becam the slogan of the Occupy Wall Street movement: "We are the 99 percent." It presented the thesis tha reverberates through the articles here and my subsequent writing: almost all of us, including many the 1 percent, would actually be better off if there were less inequality. It was in the enlightened sel interest of the 1 percent to help construct a less divided society. I was not seeking to wage a new cla war, but rather to establish a new sense of national cohesion, one that had waned as a great divide ha opened up in our society.

The article zeroed in on the question of *why we should care about the large increase in inequalit* it was a matter not only of values and morality but also of economics, the nature of our society, an our sense of national identity. There were even broader strategic interests. Though we remain th largest military power—spending almost half of what is spent around the world—our long wars Iraq and Afghanistan revealed the limits of that power: we were unable to win clear control of eve small swaths of land in countries far, far weaker than the United States. The strength of the Unite States has always been its "soft power" and, most notably, its moral and economic influence, th example it gives for others and the influence of its ideas, including those concerning its form economics and politics.

Unfortunately, because of growing inequality, the American economic model has not bee delivering for large fractions of the population—the typical American family is worse off than it wa a quarter-century ago, adjusted for inflation. Even the fraction in poverty has increased. While a risin China is marked by high levels of inequality and a democratic deficit, its economy has delivered mo for most of its citizens—it moved some 500 million out of poverty over the same period th stagnation seized America's middle class. An economic model that doesn't serve a majority of i citizens is unlikely to become a role model for other countries to emulate.

The *Vanity Fair* article led to my book *The Price of Inequality*, in which I expanded on many of th themes that I had raised, and this in turn led to the invitation from the *New York Times* in 2013 curate a series of articles on inequality that we called The Great Divide. It was my hope that, throug this series, I could further awaken the country to the problem confronting us: We were not the land opportunity that we believed we were—and that so many others believed as well. We had become th advanced country with the highest level of inequality, and we had among the lowest levels of equali of ~~opportunity. Our inequalities manifested themselves in numerous ways. But they were n~~ inevitable, the inexorable workings out of the laws of economics: rather, they were the result of o policies and politics. Different policies could lead to different outcomes: better econom performance (however measured) and lower levels of inequality.

The original *Vanity Fair* article and the series of articles I wrote for The Great Divide constitute t core of this book. For some fifteen years, I have also written a monthly syndicated column for *Proje Syndicate*. Originally dedicated to bringing modern economic thinking to countries in transition to market economy after the fall of the Iron Curtain, *Project Syndicate* in time became so successful th its articles are now published in papers all over the world, including in most of the advanc countries. Not surprisingly, many of the articles I wrote for *Project Syndicate* were concerned wi one aspect of inequality or another, and a selection of these—as well as articles published in vario other newspapers and periodicals—is included here.

While the focus of these essays is on inequality, I have decided to include several on the Gre Recession—articles written in the run-up to the financial crisis of 2007–08 and in the aftermath, as t country and the world entered the *great malaise*. Those articles deserve a place in this volume becau the financial crisis and inequality are intricately intertwined: inequality helped lead to the crisis, t crisis exacerbated already extant inequalities, and the worsening of these inequalities has created significant downdraft in the economy, making a *robust* recovery all the more difficult. Like inequali itself, there was nothing inevitable about either the depth or the duration of the crisis. Indeed, t crisis was not an act of God, like a once-in-a-hundred-years flood or earthquake. It was something th we did to ourselves; as with outsized inequality, it was the result of our policies and politics.

THIS BOOK IS mostly about the *economics* of inequality. But as I have just suggested, one cannot neat separate out politics and economics. In various essays in this volume, and in my earlier book *T Price of Inequality*, I describe the nexus between politics and economics: the vicious circle by whi more economic inequality gets translated into political inequality, especially in America's politic system, which gives such unbridled power to money. Political inequality in turn increases econom inequality. But this process has been reinforced as many ordinary Americans have becom disillusioned with the political process: in the aftermath of the 2008 crisis, hundreds of billions we to save the banks, and little went to help homeowners. Under the influence of Treasury Secreta Timothy Geithner and the National Economic Council chairman Larry Summers—who were amon the architects of deregulation policies that helped to foment the crisis—the Obama administrati initially did not support, or even opposed, efforts to restructure home mortgages, to relieve millions Americans who had suffered from predatory and discriminatory lending by the banks. No wond then, that so many people cast a pox on both houses.

I HAVE RESISTED the temptation to revise or expand the articles gathered here, or even to update the Nor have I restored the many "cuttings" of the original pieces, important ideas that had to be left o as I struggled to meet assigned word limits.[3] The journalistic format has much to commend itself: pieces are short and punchy, responding to the issues of the moment, without all the qualifications a caveats that surround so much academic writing. As I wrote these articles, engaging in the oft heated debates at the time, I kept in mind the deeper messages that I wanted to convey. I hope th book succeeds in conveying these broad themes.

As chairman of the Council of Economic Advisers and as chief economist of the World Bank, I ha ~~occasionally written op-eds, but it was not until *Project Syndicate* invited me to write a month~~ column in 2000 that I did so on a regular basis. The challenge increased enormously my respect f those who have to write a column once or twice a week. By contrast, one of the main challenges writing a column once a month is selectivity: Of the myriad economic issues that arise around t world each month, which one would be of greatest interest and provide the context of delivering message of broader import?

During the past decade, four of the central issues facing our society have been the great divide—t huge inequality that is emerging in the United States and many other advanced countries—econom mismanagement, globalization, and the role of the state and the market. As this book shows, tho four themes are interrelated. The growing inequality has been both cause and consequence of o macroeconomic travails, the 2008 crisis and the long malaise that followed. Globalization, whatev its virtues in spurring growth, has almost surely increased inequality—and especially so, given t way we have been mismanaging globalization. The mismanagement of our economy and t mismanagement of globalization are, in turn, related to the role of special interests in our politics— politics that increasingly represents the interests of the 1 percent. But while politics has been part the cause of our current troubles, it will only be through politics that we will find solutions: t market by itself won't do it. Unfettered markets will lead to more monopoly power, more abuses the financial sector, more unbalanced trade relations. It will only be through reform of our democra —making our government more accountable to *all* of the people, more reflective of their interests that we will be able to heal the great divide and restore the country to shared prosperity.

THE ESSAYS IN this book are grouped into eight parts, each preceded by a short introductory essa which attempts to explain the context in which the articles were written or touch upon a few of t topics that I was unable to address in the short confines of the articles reprinted here.

I begin with "Prelude: Showing Cracks." In the years before the crisis our economic leade including the Federal Reserve chairman Alan Greenspan, could boast of a new economy in whi economic fluctuations that had been the scourge of the past would be put behind us; the so-called gre moderation was bringing a new era of low inflation and seemingly high growth. But those who look even a little bit more closely saw all of this as merely a thin veneer, masking econom mismanagement and political corruption on a massive scale (some of which had come to light in t Enron scandal); even worse, the growth that was occurring was not being shared *by most America* The great divide was growing larger. The chapters describe the making of the crisis and i consequences.

After presenting in Part I an overview of some of the key issues in inequality (including my "Of t 1 Percent, by the 1 Percent, for the 1 Percent" *Vanity Fair* article, and my inaugural article for T Great Divide series in the *New York Times*), I turn in Part II to two articles providing person reminiscences on the early awakening of my interest in the subject. Parts III, IV, and V deal with t dimensions, causes, and consequences of inequality; Part VI presents some discussions of key poli ideas. Part VII looks at inequality and policies designed to address it in other countries. Finally, Part VIII I turn to one of the core causes of inequality in America today—the prolonged weakness our labor market. I ask how we can best put America back to work, at decent jobs paying livab wages. An afterword contains a short interview with *Vanity Fair*'s editor Cullen Murphy that touch on some of the questions that have been raised repeatedly during discussions of inequality: When d

America make the wrong turn? Aren't the 1 percent the job creators, so won't making a more equ
society wind up hurting the 99 percent?

Acknowledgments

This is not a standard academic book, but a collection of articles and essays written for an assortme of periodicals and newspapers over the last few years on the subject of inequality—the yawning divi that has opened up especially in America, but to a lesser extent in many other countries around th world. But the articles are based on a long history of academic research, begun when I was a gradua student at M.I.T. and a Fulbright scholar at Cambridge, UK, in the mid-1960s. Back then—and unt recently—there was little interest among the American economics profession in the subject. And so, owe a great deal to my thesis supervisors, two of the great economists of the twentieth century, Robe Solow (whose own dissertation was on the subject) and Paul Samuelson, for encouraging me in th line of research, as well as for their great insights.[4] And an especial thanks to my first co-autho George Akerlof, who shared the 2001 Nobel Prize with me.

At Cambridge, we often discussed the determinants of the distribution of income, and I benefit enormously from conversations with Frank Hahn, James Meade, Nicholas Kaldor, James Mirrlee Partha Dasgupta, David Champernowne, and Michael Farrell. It was there that I tutored and the began my collaboration with Anthony Atkinson, the leading scholar on inequality in the past ha century. Ravi Kanbur, Arjun Jayadev, Karla Hoff, and Rob Johnson are other former students an colleagues who taught me much about the subjects discussed in this book.

Rob Johnson currently heads the Institute for New Economic Thinking (INET), founded in th aftermath of the Great Recession. Amidst the wreckage of the economy, it was increasing recognized that standard economic models had not served the country or the world well; ne economic thinking—including a greater focus on inequality and the limitations of markets—w needed. I wish to acknowledge the support of INET for some of the research that underlies the essay here.[5]

While the link between inequality and macroeconomic performance has long been a concern in m theoretical research and policy work, there is, at last, a growing recognition of the importance of th connection (including by the International Monetary Fund). Here, I want to acknowledge th collaboration with my Columbia colleagues Bruce Greenwald and Jose Antonio Ocampo, and the wor of the Commission of Experts on Reforms of the International Monetary and Financial Syste appointed by the President of the United Nations General Assembly, which I chaired.[6]

Anyone working in the area of inequality today also owes a great debt to Emmanuel Saez an Thomas Piketty, whose painstaking work has produced so much of the data that reveals the extent o inequality at the top in the U.S. and many other advanced countries. Other leading scholars who influence will be seen here include Francois Bourgignon, Branko Milanovic, Paul Krugman, an James Galbraith.[7]

When Cullen Murphy, then an editor at *The Atlantic Monthly*, persuaded me to write an article o some of my experiences at the White House (in an article, "The Roaring Nineties," which eventual led to my second book for a more popular audience),[8] it provided not only an opportunity to articula ideas I had been pondering for some years but also a new challenge: Could I address complex ideas a succinct way that would make them widely accessible? I had written many of my academic pape with a co-author; the close relationship between an editor and a writer is similar in some ways, b diff~~erent in others. We each had distinct roles. He knew the audience, in a way I could barely fat~~hom came to appreciate the role that a great editor plays in shaping an article. Great editors allow the voi of the author to come through, even as they improve the exposition—and in some cases, make t topic more tantalizing.

After "The Roaring Nineties" I wrote several other pieces for *The Atlantic Monthly,* and wh Cullen Murphy moved to *Vanity Fair*, he continued to solicit articles from me. One of thes "Capitalist Fools" (included in this volume), written in the lead-up to and the aftermath of the Gre Recession, won a prestigious Gerald Loeb Award for outstanding journalism. Evidently, under th tutelage of Cullen, I had made strides in my writing.

He has worked closely with me on all of the articles I have written for *Vanity Fair,* of which fo are included here. Most importantly for this volume, he solicited and worked diligently with me writing the article "Of the 1 Percent, by the 1 Percent, for the 1 Percent," which, in turn, gave rise my book *The Price of Inequality* and this book. Graydon Carter suggested the title for that article. "W are the 99%" became the slogan of the Occupy Wall Street movement, symbolizing America's Grea Divide.

The arrangements I made with *Project Syndicate*, *Vanity Fair*, *The New York Times*, and a host other media, reflected in the articles collected here, gave me the opportunity to express my views what was happening in the world—to be a pundit, perhaps more thoughtful than those who are forc to offer their opinions on a huge range of topics on the Sunday morning shows, because I could bo choose my topics and mull over the answers.

The editors of each of these articles made invaluable contributions to the essays collected here. particular, I want to thank Sewell Chan and Aaron Retica, who edited the *New York Times Gre Divide* series (which provides the title of this volume). Even before we had strategized together in la 2012 on how to bring the issues of America's growing inequality, in all of its dimensions and with a of its consequences, before the American people, Sewell had worked with me in editing the ess published here (with Mark Zandi), "The One Housing Solution Left: Mass Mortgage Refinancing Aaron and Sewell did an amazing job editing the sixteen articles from *The New York Times* includ here. I have a proclivity for writing too long, and it is always sad to see so much of one's writing e up on the cutting floor; but getting across a set of ideas in 750 words, or even 1,500 words, is one the real challenges in journalism. Aaron and Sewell always added great insights as they cut aw excess verbiage.

Among the many other editors to whom I am greatly indebted are Andrzej Rapaczynski, Kev Murphy, and the other staff at *Project Syndicate,* Allison Silver (now at Thomson Reuters), Micha Hirsh at *Politico,* Rana Foroohar at *Time,* Philip Oltermann at *The Guardian,* Christopher Beha *Harper's,* Joshua Greenman at the *New York Daily News,* Glen Nishimura at *USA Today,* Fred Hiatt the *Washington Post,* and Ed Paisley at the *Washington Monthly.* I should also acknowledge t encouragement and support of Aaron Edlin at the *Economists' Voice,* Roman Frydman at *Proje Syndicate,* and Felicia Wong, Cathy Harding, Mike Konczal, and Nell Abernathy at the Roosev Institute, for which I wrote a policy brief that I partly describe in my essay "Phony Capitalism."

The Roosevelt Institute and Columbia University have provided unparalleled institutional backin The Roosevelt Institute, which grew out of the Roosevelt Presidential Library, has developed into o of the country's leading think-tanks, advancing the ideals of social and economic justice for which t Roosevelts stood. The Ford and MacArthur Foundations and Bernard Schwartz have provid generous support for the Roosevelt/Columbia research program on inequality.

For the past fifteen years, Columbia University has been my intellectual home. It has given me t freedom to pursue my research, gifted me with bright students enthusiastic about engaging in deba

about ideas, and brilliant colleagues from whom I have learned so much. Columbia has provided a environment that has enabled me to flourish, to do what I love to do: research, teach, and advoca ideas and principles that I hope will make the world a better place.

Once again, I am indebted to Drake McFeely, president of W. W. Norton, and my long time frien and editor Brendan Curry, who once again did a superb job in editing this book and benefitted in tur from the help of Sophie Duvernoy. I am indebted too, as usual, to Elizabeth Kerr and Rachel Salzma at Norton—for this book and for their support over the years. I have also benefitted enormously ov the years from the close editing of Stuart Proffitt, my editor from Penguin/Allen.

I could not have completed this book without a smooth-running office, headed by Hannah Assa and Julia Cunico, with the support of Sarah Thomas and Jiaming Ju.

Eamon Kircher-Allen not only managed the whole process of producing the book, but served as a editor as well. I owe him a double thanks: he also edited each of the articles in the book at the tin they were originally published.

As always, my biggest debt is to my wife, Anya, who strongly believes in the subjects that I discu here and in the importance of bringing them to a wider public, who provided such encouragement ar help in my doing so, who has repeatedly discussed the ideas behind all of my books and has help shape and reshape them.

Notes

1. Oxfam, "Working for the Few: Political Capture and Inequality," Briefing Paper 178, January 20, 2014.

2. Robert Lucas, "The Industrial Revolution: Past and Present," 2003 Annual Report Essay, Federal Reserve Bank of Minneapol May 1, 2014. He went on to say, "Of the vast increase in the well-being of hundreds of millions of people that has occurred in t 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources fro rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production *nothing* compared to the apparently limitless potential of increasing production."

3. In a few cases, where inadvertently the headline writers choose leads that were too similar, I changed the title of the article. Th decision also meant that there is inevitably some overlap in the themes discussed in the different essays. Some small edits have be made to avoid duplication.

4. I later co-authored a paper with Solow touching on some of the macroeconomic aspects of inequality and demand. See, R. Solow and J. E. Stiglitz, "Output, Employment, and Wages in the Short Run," *Quarterly Journal of Economics*, 82 (November 196 537–560.

5. In particular, the essay "The Book of Jobs," originally published in *Vanity Fair,* was based on research jointly done with Bru Greenwald and other co-authors, supported by INET. See, e.g., D. Delli Gatti, M. Gallegati, B. C. Greenwald, A. Russo, and J. Stiglitz, "Sectoral Imbalances and Long Run Crises," in F. Allen, M. Aoki, J.-P. Fitoussi, N. Kiyotaki, R. Gordon, and J. E. Stiglit eds., *The Global Macro Economy and Finance*, IEA Conference Volume No. 150-III (Houndmills, UK, and New York: Palgrav 2012), pp. 61–97; and D. Delli Gatti, M. Gallegati, B. C. Greenwald, A. Russo, and J. E. Stiglitz, "Mobility Constraints, Productiv Trends, and Extended Crises," *Journal of Economic Behavior & Organization*, 83(3): 375–393.

6. The Commission included among its members Jose Antonio Ocampo, Rob Johnson, and Jean Paul Fitoussi. The report of t Commission is available as *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of t Global Crisis* (New York: The New Press, 2010). I co-chaired with Jean Paul Fitoussi and Amartya Sen an International Commissio on the Measurement of Economic Performance and Social Progress, emphasizing the many dimensions of well-being that are not w captured in GDP. Many of the ideas of the Commission are reflected in the essays contained in this book. The work of t Commission is now being carried on at the OECD. The report of the Commission is available as J. E. Stiglitz, J. Fitoussi, and A. Se *Mismeasuring Our Lives: Why GDP Doesn't Add Up* (New York: The New Press, 2010).

7. A fuller list of acknowledgments is contained in the paperback edition of *The Price of Inequality*.

8. "The Roaring Nineties," *Atlantic Monthly*, October 1992, gave rise to *The Roaring Nineties: A New History of the World's Mo Prosperous Decade* (New York: W. W. Norton, 2003).

SHOWING CRACKS

~~THE BOOK BEGINS WITH THE ONSET OF THE GREAT Recession, several years before the start~~ of th *Times's* Great Divide series. The first selection was published in Vanity Fair in December 2007, th very month the U.S. economy slipped into a downturn that would prove to be the worst since the Gre Depression.

For the preceding three years, I, together with a small band of other economists, had been warnin of the impending implosion. Warning signs were, in fact, there for anyone to see—but too man people were making too much money: it was more convenient to close their eyes. There was a par going on—only a few at the top were invited, but the rest of us would be asked to pay the bi Unfortunately, however, those who were supposed to make sure that the economy was kept on an eve keel were too closely connected to those who were throwing the party and who were having all the fu (and making all the money). And that's why these chapters are included here, as a prelude. Th making of the Great Recession is intimately connected with the making of America's great divide.

First, let's set the scene: there was a major economic boom during the 90s, fueled by a tech bubb in which technology stocks soared in price, but after that bubble broke, the economy slid in recession in 2001. The George W. Bush administration's all-purpose remedy for any problem was tax cut—and especially a tax cut aimed at the wealthy.

For those in the Clinton administration who had worked hard to reduce the fiscal deficit, this w troubling for many reasons. It brought back the deficits—undoing all the work that had been done ov the preceding eight years. The Clinton administration had put off investments in infrastructure an education and programs to help the poor, all in the name of deficit reduction. I had not agreed wi some of these actions—I thought borrowing to make investments in the country's future mad economic sense, and I was worried that a later administration might squander these hard-fought gai for less noble purposes.

As the economy sank into the 2001 recession, there was consensus among policymakers that th economy needed a stimulus. A far better way of providing that stimulus than Bush's tax cuts for th rich would have involved making the investments we had postponed.[1] I was already concerned abo the country's growing inequality, and these inequitable tax cuts only made matters worse. I began m *New York Review of Books* article, "Bush's Tax Plan—The Dangers" (March 13, 2003) as follow "Seldom have so few gotten so much from so many."

Worse still, I thought the tax cuts would be *relatively* ineffective. And that proved correct. This is theme I return to frequently in this book. *Inequality weakens aggregate demand and the econom* America's growing inequality was moving money from the bottom of the pyramid to the top, an since those at the top spent less of their money than those at the bottom, this weakened overa demand. During the 90s we masked the deficiency by creating the tech bubble—a boom in investmen But with the breaking of the tech bubble, the economy fell into recession. Bush responded with a ta cut aimed at the rich. With consumers worried about their future, the hoped-for stimulus to th economy from Bush's tax cuts was weak. Piling on a further capital-gains tax cut—on top of one th had been given a few years before by President Clinton—only encouraged more speculation. Since i benefits went overwhelmingly to the very top, this tax cut was particularly ineffective and als strongly increased inequality.

The most effective tools for strengthening demand and improving equality are fiscal policies—ta and expenditure policies decided by Congress and the administration. Inadequate fiscal policies put a undue burden on monetary policies, which are the responsibility of the Federal Reserve. The Fed ca (sometimes) stimulate the economy by lowering interest rates and making regulations more lax. B these monetary policies are dangerous. Their prescriptions should come with a big label: Use on with caution, and under the close supervision of adults who understand the full risks. Unfortunatel

those in charge of monetary policy had not read any such label; and they were naïve mark
fundamentalists—believing that markets are always efficient and stable. While they underestimate
the risks that their policies posed to the economy—and even to the government's budget—they didn
seem to care about the inequality that was growing day by day. The result is now well known: the
unleashed a bubble, and their policies led to an unprecedented growth in inequality.

The Fed kept the economy churning with a policy of low interest rates and lax regulations. But worked only by creating a housing bubble. It should have been apparent to all that the housing bubb and the consumption boom to which it led could only be a temporary palliative. Bubbles always brea Our consumption binge meant that the bottom 80 percent of Americans were *on average* spending 11 percent of their income. By 2005 as a country we were borrowing more than $2 billion a day fro abroad. It was not sustainable, and, quoting one of my predecessors as chairman of the Council Economic Advisers, in my speeches and writings I repeatedly warned that that which is n sustainable wouldn't be sustained.

When the Fed started to raise interest rates in 2004 and 2005, I anticipated that the housing bubb would break. It did not, in part because we were given a kind of reprieve: long-term interest rat failed to rise in tandem. By January 1, 2006, I predicted that this could not continue.[2] The bubble d break not long thereafter, but it would take a year and a half to two years for the full effects to b realized. As I wrote soon afterward, "Just as the collapse of the real estate bubble was predictable, s are its consequences …."[3] With "by some reckonings, more than two-thirds of the increase in outp and employment over the [preceding] six years … [being] real estate–related, reflecting both ne housing and households borrowing against their homes to support a consumption binge," it shou have been no surprise that the subsequent downturn would be deep and long.[4]

The articles included in this first section describe the policies that laid the groundwork for the Gre Recession: What did we do wrong? Who is to blame? While those in the financial market, at the Fe and at Treasury would like to pretend it was just something that happened—an unpreventable, onc in-a-hundred-years flood—I believed then, and believe even more strongly now, that the crisis wa man-made. It was something that the 1 percent (indeed, a sliver of that 1 percent) did to the rest of u The fact that it could happen was itself a manifestation of the great divide.

The Making of a Crisis

That the Great Recession had created victims is clear. But who were the perpetrators of this "crime" If we were to believe the Justice Department, which brought charges against none of the leaders of th big banks that played a central role in this drama, this was a crime without *any* perpetrator. I don believe that, nor do most Americans. In three of the articles reprinted here, I attempt to find out wh killed America's economy, to trace out the historical arc that led us to this juncture.[5] I wanted to d deeper and go back further: there was more to the story than the stock response "The bankers lent to much and homeowners borrowed too much."

What, I asked, had brought us to this juncture? There was incompetence and bad judgment. The il conceived and poorly executed war in Iraq, whose eventual costs would amount to trillions,[6] was th most telling example. But the main blame I assign to a combination of ideology and special-intere pressure—the same combination that has led to the country's growing inequality. I point a fing particularly at the belief that unfettered markets are necessarily efficient and stable. We should kno otherwise: major economic fluctuations have marked capitalism from the start. Some have suggeste that ~~*all* that needs to be done is for the government to ensure macrostability—as if market~~ failur occur only in big macrodoses. I suggest otherwise: the macrocrises are only the tip of the iceberg; le noticeable are myriad inefficiencies. The crisis itself provides ample evidence: the market collap was a result of a host of failures in the management of risk and the allocation of capital, mistak made by mortgage originators, investment banks, credit-rating agencies—indeed by millio throughout the financial sector and elsewhere in the economy.[7]

But I suggest also that there was more than a small dose of hypocrisy on the part of those wh advocated free markets, again evidenced in the Great Recession: the *seeming* advocates of free-mark economics were more than willing to accept government assistance—including massive bailouts. Su policies distort the economy, of course, and lead to poorer economic performance; but reflecting th theme of this book, they also have distributive consequences—with more money going to those at th top, with everyone else picking up the tab.

As I thought about *who killed the economy*, No. 1 on the list of suspects was the president at th time. "The Economic Consequences of Mr. Bush" details *some* of the *economic* consequences of th president. Though conservatives rail against deficits, they seem to have a particular knack for creatin them. Large deficits first began to characterize the American economy with President Reagan, and was not until President Clinton that the deficits turned into surpluses. But in short order Bush revers this—the largest turnaround (in the wrong direction) in the nation's history—partly as a result paying for two wars on the credit card, partly as a result of tax cuts for the rich, partly as a result of h largesse to drug companies and the expansion of other forms of corporate welfare—the increas "dole-out" to the rich corporations across a wide range of sectors, some hidden in the tax system through guarantees, some brazenly open. And all this even as we cut back on the safety net for th poor, on the grounds that we couldn't afford it.

As I have written repeatedly,[8] deficits are not necessarily a problem: not if the money is spent make investments, and especially not if this spending occurs when the economy is weak. But the Bus deficits were especially problematic: they occurred during a time of seeming prosperity, even if th prosperity reached only a few. The money was spent not to strengthen the economy but to strengthe the coffers of a few corporations and the pocketbooks of the 1 percent. Most troublesome was tha saw storms ahead—Would we have the wherewithal to weather the storms? Would the conservativ at that point again demand fiscal prudence, imposing austerity at the moment the economy desperate needed the opposite medicine?

Most importantly for this book, the Bush years were marked by growing inequality, which neither recognized nor did anything about—except to make it worse. This was a short article, and could not provide a full litany of what had gone wrong. I didn't note that while inequality had mild improved during the Clinton years, the income of a *typical* American (median income) adjusted f inflation actually fell under Bush—and this was true even before the recession made things so mu worse. More Americans lacked health coverage. And they faced more insecurity—a greater risk losing their jobs.[9]

But perhaps his most grievous failure was setting up the conditions for the Great Recession, topi that I delve into at greater length in the next two chapters. Bush's tax cuts for the rich, which discussed above, play prominent roles in the drama—while they did not provide much stimulus, th exacerbated the country's already large inequality. They illustrate a second theme to which I w return later in the book, and which has now been taken up by the International Monetary Fund (IMF an organization not known for taking "radical" positions: inequality is associated with instability. The making of the 2008 crisis exemplifies how this happens: central banks create bubbles in respon

to a weakened economy born of growing inequality. The bubble eventually breaks and wreaks havo
on ~~the economy. (Of course, the Fed should have been aware of this risk. But its leadership evin~~ced a
almost blind faith in markets and, like Bush, who had reappointed the Fed chair Alan Greenspan an
later appointed the Fed chair Ben Bernanke—he had been his chief economic adviser—the institutio
appeared to pay little attention to the inequality that was growing day by day in the country.)

At the same time, this illustrates a third theme: the role of politics. It is policies and politics th matter. The United States could have responded to the weakened economy by investing in America, o by undertaking policies that reduce inequality. Both of these would have led to a stronger econom and a fairer society. But economic inequality inevitably leads to political inequality. What happene in America is what one comes to expect of a polity with a divided society. Rather than mor investment, we got tax cuts and corporate welfare for the rich. Rather than regulations that wou stabilize the economy and protect ordinary citizens, we got deregulation that led to instability and le Americans prey to the bankers.

Deregulation

To understand the makings of the Great Recession, one has to go back in time, to the deregulator movement that was given such a boost by President Reagan. In “Capitalist Fools” I identify fiv critical “mistakes,” which both reflected broader trends in our society and reinforced each other- culminating in the worst economic downturn in three-quarters of a century. Several of them illustra the new power of finance—the appointment of Greenspan because he supported deregulation, th deregulation itself, begun under Reagan, but continuing under Clinton, including the destruction regulatory walls between investment and commercial banks.[11]

The regulators didn’t do what they should have done, but the crimes themselves were committed b the financial sector. At the time I wrote these articles, we had only a partial glimpse of how bad thing had become. We knew that the banks had mismanaged risk and misallocated capital—all the tim offering huge bonuses to their leaders for the wonderful job that they were doing. We knew that th bonus system itself had created incentives for excessive risk-taking and shortsighted behavior. W knew that the credit-rating agencies had failed miserably in their job of assessing risk. We knew th securitization, long vaunted for its ability to manage risk, had provided incentives for mortga originators to weaken standards (what was called the moral hazard problem). We knew that the bank had engaged in predatory lending.

But we didn’t know the full extent of the moral depravity of the banks, of their willingness engage in exploitive practices, or their recklessness. We didn’t know, for instance, just how widel they engaged in discriminatory lending. We didn’t know of their manipulation of the foreign exchang and other markets. We didn’t know of the sloppiness in their record keeping, in their race to write a ever larger number of bad mortgages. And we didn’t know the full extent of fraudulent behavior, o the part not just of the banks but of the credit-rating agencies and other market participant Competition among rating agencies to provide a high rating (they were paid only if the investme banks “used” their ratings, and they used only the ratings that were most favorable) had led them deliberately ignore relevant information that might have yielded a less favorable rating.

The chapters published here do provide, however, a good description of where the financial secto went wrong.

Financial Markets and the Growth of Inequality

In these articles and elsewhere in this volume, I dwell extensively on the financial sector, and for goo reason. As Jamie Galbraith of the University of Texas has so persuasively shown,[12] there is a cle link between the increasing financialization of the world's economies and the growth of inequalit The financial sector is emblematic of what has gone wrong in our economy—a major contributor the growth of inequality, the major source of instability in our economy, and an important cause of th economy's poor performance over the last three decades.

This isn't, of course, the way it was supposed to be. Liberalization of financial marke ("deregulation") was *supposed* to allow financial experts to allocate scarce capital and manage ris better; the result was *supposed* to be faster and more stable growth. The proponents of a stron financial sector were right about one thing: it is hard to have a well-performing economy without well-performing financial sector. But, as we have seen repeatedly, the financial sector doesn't perforr well on its own; it requires strong regulations, effectively enforced, both to prevent it from imposir harm on the rest of the society and to make sure that it actually performs the functions it is *suppos* to perform. Sadly, recent discussions on financial sector reform have focused only on the first half this task—how to prevent the banks and other financial institutions from *harming* the rest of societ by exposing it to excessive risk-taking or some other form of exploitation—and given little attentio to the second.

The crisis confronting the United States and the world in 2008 was, as noted earlier, a man-mac disaster. I had seen this movie before: how a combination of powerful (if wrong) ideas and powerfu interests can combine to produce calamitous results. As chief economist of the World Bank, I ha observed how, after the end of colonialism, the West managed to push ideas of free-marke fundamentalism—many of which reflected the perspectives and interests of Wall Street—c developing countries. Of course, the developing countries didn't have much choice: colonial powe had ravaged these countries, exploiting them ruthlessly, extracting their resources, but doing little develop their economies. They needed assistance from the advanced countries, and as a condition that assistance, officials at the IMF and elsewhere imposed conditions—that the developing countri liberalize their financial markets and open up their domestic markets to a flood of goods from th advanced countries, even as the advanced countries refused to open their markets to the agricultur goods of the South.

The policies failed: Africa saw its per capita income fall; Latin America saw stagnation, with th benefits of the limited growth going to a small sliver at the top. Meanwhile, East Asia took a differe course; with governments leading the development effort ("the developmental state," as it was callec incomes per capita rapidly doubled, tripled—eventually increasing eightfold. In the third of a centu that Americans saw their incomes stagnate, China went from being an impoverished country, with per capita income less than 1 percent that of the United States and a GDP that was less than 5 perce that of the United States, to being the largest economy in the world (measured in what economis called purchasing power parities). By the end of the next quarter-century, it was slated to be twice th size of the U.S. economy.

But ideologies are often more influential than evidence. Free-market economists seldom looked the success of the managed-market economies of East Asia. They preferred to talk about the failur of the Soviet Union, which eschewed the use of the market altogether. With the fall of the Berlin Wa and the collapse of Communism, it *seemed* that free markets had triumphed. Though this was th wrong lesson to be drawn, the United States used its sway as the sole remaining superpower advance its economic interests—or, more accurately, to advance the interests of its large and powerfu corporations. And among these, perhaps the most influential was the financial sector. The Unite States pushed countries to liberalize their financial markets. The result: country after country fac crises—including some of the very countries that had been doing so well *before* they liberalized the markets.

~~In a sense, though, we were no worse to these other countries than we were to ourselves. Unde~~r bo Clinton and Bush we pursued policies at home and abroad that were demanded by the financial secto In "The Anatomy of a Murder" I touch on how these policies led to a crisis. (In my book *Freefall* discuss these issues more extensively.)

Here my concern is how the financial sector contributes to growing inequality. There are sever channels by which financialization has had these effects. The financial sector excels in rent seeking, wealth appropriation. There are two ways of getting wealthy: increasing the size of the national pi and attempting to get a larger size of a preexisting pie—and in the process, the size of the pie ma actually be diminished. Incomes at the top of the financial sector are more related to the latter than the former. While some of the wealth of those in the financial sector comes at the expense of oth wealthy people, including much of what they acquire through market manipulation, much of it com from siphoning money from the bottom of the economic pyramid. This is true of the billion generated through abusive credit card practices and predatory and discriminatory lending. But it even true of their abuses of monopoly power in credit and debit cards: the excessive charges the impose on merchants act like a tax on every transaction—a tax that enriches the coffers of the banke rather than the well-being of society; in competitive markets, the charges inevitably get passed on the form of higher prices paid by ordinary citizens.

At least before the crisis, those in the financial sector boasted that they were the engine of econom growth, that their "innovativeness" had led to the country's outstanding economic performance.

The real measure of the performance of an economy is how well the typical family does, and those terms there has been zero growth over the past quarter-century. But even if one uses GDP as th yardstick, performance has been anemic—far worse than in the decades before financial liberalizatio and the financialization of the economy—and it's hard to attribute what growth there has been to th financial sector. But though it's hard to show any positive effect on growth, it's easy to establish th connection between the financial sector's shenanigans and the economy's instability, evidenced mo strongly by the 2008 crisis.

Data on GDP and profits tell us a great deal about how the financial sector helped lead the econom astray. In the years before the crisis, the financial sector absorbed an increasing share of the econom —8 percent of GDP, 40 percent of all corporate profits—with little to show for it. There was, o course, a credit bubble, but rather than leading to higher levels of *real* investment, which would hav led to higher wages and sustained growth, it went toward speculation and to higher real estate price A higher price for real estate on the French Riviera, or for Manhattan apartments for billionaire doesn't translate into a more productive economy. And that helps explain why, in spite of th enormous increase in the wealth-to-income ratio, average wages stagnated and real returns on capit did not decline. (The standard law of economics—the law of diminishing returns—should have mea that the return to capital should have fallen, and wages should have risen. Improvements in technolog would have reinforced the conclusion that *average* wages should have increased, even if wages f some types of labor would have decreased.)

The excessive risk-taking in the financial sector, combined with its success in curbing regulatio led, in a way that was predictable and predicted, to the most severe crisis in three-quarters of century. As always, it is the poor who suffer the most from such crises, as they lose their jobs and fac protracted unemployment. In this case, the effects on ordinary Americans were particularly grav given that more than 14 million homes were foreclosed from 2007 to 2013, and given the magnitu of the cutbacks in government spending, including for education. Aggressive monetary policy (so called quantitative easing) focused more on restoring prices in the stock market than on restorin lending to small and medium-size enterprises, and as a result was much more effective in restorin wealth to the rich than in benefiting average Americans or in creating jobs for them. That's why in th first ~~three years of the so-called recovery, some 95 percent of the increases in income went to~~ the to 1 percent, and why six years after the start of the crisis, median wealth was down 40 percent relati to precrisis levels.

There is a final role that the financial sector has played in the creation of America's, and th world's, growing inequality (and poor economic performance): I noted earlier that the country outsize inequality is a result of the policies it has pursued. The financial sector pushed inequalit increasing policies and developed an ideology to support them. Of course, some participants financial markets have been important voices of opposition; there are many who embrac "enlightened self-interest." But, by and large, the financial sector has pushed the idea that markets o their own lead to efficient and stable outcomes, and on that assumption governments should liberali and privatize; it has argued that progressive taxation should be limited because of its adverse effec on incentives; it has contended that monetary policy should focus on inflation and not job creatio And after these policies brought about the Great Recession, a single-minded focus on fiscal defici led to cutbacks in government spending that hurt ordinary citizens. These policies in turn prolong the economic downturn.

Transparency

There is a broad understanding that market economies work best with transparency—it is only wi good information that resources can be well allocated. But while markets—especially financi markets—may preach transparency for others, they do what they can to limit it for themselves; aft all, with transparent and competitive markets, profits are driven to zero. Ask any businessperson: it no fun to be in such markets. One has to struggle to survive. There's little upside potential. That's wh they make such a big deal over business secrets and confidentiality. All of this is natural and we understood. But government is supposed to weigh in on the other side, to countervail these tendencie to make markets more competitive and transparent. But this won't happen if government is captur by businesses, and especially by financial markets. And that's where I felt special disappointme with what happened in the Clinton administration. One somehow expects this of administrations o the right, but not of one that claimed to be "putting people first." In "Capitalist Fools" I explain ho the Clinton and Bush administrations had put in place incentives to "fake the numbers Unfortunately, the Obama administration failed to use the 2008 crisis to force more transparency- allowing trade in nontransparent over-the-counter derivatives, the source of so much havoc in th crisis—to go on, though with some restrictions.

The Role of the Economist

In its list of who is to be blamed, the chapter on the anatomy of a murder adds one more categor economists—the many economists who claimed that markets were self-regulating, who provided th so-called intellectual underpinnings to the deregulatory movement, in spite of the long history of th failure of unregulated and underregulated financial markets, and in spite of important advances economic theory, which had explained why financial markets need to be and should be regulate These advances focused on the importance of information imperfections and imperfections competition, important in all sectors of the economy, but especially in the financial system. Moreove when an ordinary business fails, there are consequences for its owners and their families, but n typically for the entire economy. As our political leaders and the banks themselves said, we cann allow any of the big banks to fail. But if that is the case, then they must be regulated. For if they a too ~~big to fail, and they know it, excessive risk-taking is a one-sided bet: if they win, they ke~~ep th profits; if they lose, taxpayers pick up the tab.

Dodd-Frank, the financial sector reform bill, did nothing to address the too-big-to-fail problem Indeed, the way we addressed the crisis made it worse: we encouraged, in some cases forced, banks merge, so that today concentration of market power is even greater than it was before the crisis. Th concentration has one further consequence: it leads to a concentration of political power, so evident the ongoing struggle to pass effective bank regulation. One area where progress was made in Dod Frank was to circumscribe the ability of federally insured financial institutions from writin derivatives—those risky products that had led to the collapse of AIG and the largest bailout in th history of the planet. While there is disagreement about whether these financial products are gamblin instruments or insurance, there is no justifiable reason that they should be provided by *lendin* institutions, and especially those insured by the government. But Congress, with language written b Citibank itself, repealed even this provision in 2014, without even any hearings!

The influential documentary *Inside Job* threw light on what may have been going on within th economics profession. Economists are wont to say that incentives matter: indeed, that is the one thin that economists seemingly agree on. The financial sector provides ample rewards for those who agre with them: lucrative consultancies, research grants, and the like. The documentary raises a questio Could this have influenced some economists' judgments?

Responses to the Crisis

Just as the "making of the crisis" illustrates several of the themes of this book, so do the articles wrote in 2008 and 2009 on the responses, of which one, "How to Get Out of the Financial Crisis published in Time magazine a month after the collapse of Lehman Brothers, is included here. Th disparity between what was needed and what was done illustrates the great divide.

Even though the crisis had long been in the making, and even though there had been amp warnings, those in charge, both at the Fed and in the administration, *seemed* surprised, and I believ genuinely were—a remarkable testament to the ability to close one's senses to information that on finds unpleasant and contradicts one's preconceptions. After all, the housing bubble had broken i 2006, the economy had plunged into recession in 2007, the Fed had been supplying unprecedente funds to banks in 2007 and 2008, and there had been a very expensive rescue of Bear Stearns in Marc 2008. Virtually any economist who did not blindly believe in the virtues of the free and unregulate markets, their efficiency and stability, saw the writing on the wall. Yet the Fed chair Ben Bernank would blithely claim that the risks were "contained."[13]

The precipitating event that plunged the country from the recession that began in December 200 (which Bush's policies—another tax cut for the rich in February 2008—had done little to end) into *deep* recession, the worst since the Great Depression, was the collapse of Lehman Brothers o September 15, 2008. After confidently asserting that letting it collapse would have only a limite effect on the economy—and would teach banks an important lesson—the Fed and Treasury took 180-degree turn and bailed out AIG, the most expensive bailout in human history, an amount o corporate welfare to one firm that exceeded that given to the millions of poor Americans over yea and years. Later we were to learn why—and why they did everything they could to hide what the were doing from the American people: the money passed quickly from AIG to Goldman Sachs an other banks. It was when these banks were in jeopardy that the Fed and Treasury came to the rescue.

In ~~my *Time* article, I put forward a simple agenda. Regrettably, what was done reflected m~~ore th interests and perspectives of the banks and the 1 percent than it did the agenda I laid forth, as I feare at the time. And so too, the recovery has been anemic. The Obama administration may claim that stopped the economy from falling into another Great Depression. Whether or not that is true, it is cle that it didn't engineer a robust recovery. As this book goes to press, seven years later, mo Americans' incomes are still below what they were before the crisis. Wealth in the middle is almo back to the level of 1992, some two decades ago.[14] The recovery was designed by the 1 percent, f the 1 percent. President Obama may have claimed in his State of the Union address on January 2 2015, that the crisis is over. But not even he would suggest that all is well. GDP is some 15 percen below what it would have been had there not been the crisis, and the gap between where we are an where we would have been is barely closing. Trillions have been unnecessarily lost by following the percent's agenda.

There were five items on my agenda. The first was a recapitalization of the banks—in a way th ensured that they return to lending and that gave American taxpayers a fair deal for bearing the risk that they bore. We did recapitalize the banks. Bailing out the banks, however, didn't mean bailing ou the shareholders, the bondholders, and the bankers. But that's what we did.

When the IMF, the World Bank, or the U.S. government lends money to other countries, we impos conditions—we want to make sure that the money is spent in the way intended. The irony is that th U.S. Treasury is among those most insistent on such conditionality. But when it came to imposin conditions on U.S. banks, Treasury demurred.

Here the intent was clear: to save the banks so that they could continue to provide funds to make o economy function. But because we imposed no conditions, the money went instead to pay meg bonuses—clearly undeserved—to the bankers. Years after the crisis, lending to small and medium size businesses was still far below what it had been before the crisis.

The administration claims that the government was repaid, but it was largely a shell game, repa from one pocket with money the government put into another. The Fed lent money to the banks at zero interest rate, which they then lent out to the government and big businesses at far higher intere rates. (Even a 12-year-old could make money this way; one didn't need to be a financial wizard- though the bankers received bonuses as if they were.) The government stealthily arranged for the ba mortgages to move off the banks' books and onto the government balance sheet. Even then, what th government got was but a fraction of that received by private investors, like Warren Buffett, who ha put money into the banks at the time of the crisis.

Put baldly, ordinary Americans were cheated. A huge gift was given to the banks by providing them money at much more favorable terms than those given to others—and at rates much lower than othe were willing to extend to the banks. Doing so redistributed money from ordinary citizens to th wealthy bankers. Had the banks been charged what they should have been, our national debt would b lower and we would have more money to invest in education, technology, infrastructure—investmen that would have led to a stronger economy with more shared prosperity.

Like so many of the economic policies designed by the 1 percent and for the 1 percent, it relied o trickle-down economics: throw enough money at the banks, and everyone will benefit. It didn't wo out that way, and predictably so.[15] I had argued, by contrast, that we should have tried a bit of trickl up economics—help those in the middle and the bottom, and the entire economy will benefit.

The crisis had begun in housing, and so it was natural to suggest that a robust recovery wou require stemming the tide of foreclosures. Even before he became president, I warned Obama th bailing out the banks would not be enough. He had to help America's homeowners. But his secretar of treasury Tim Geithner, who had been the head of the New York Fed as the banks engaged in the