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WINNER OF THE NOBEL PRIZE

THE GREAT

DIVIDE

UNEQUAL SOCIETIES AND
WHAT WE CAN DO ABOUT THEM

THE GREAT DIVIDE

*Unequal Societies and
What We Can Do About Them*

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.

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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 different worries, different aspirations, and different lifestyles.

Ordinary Americans worry about how they will pay for the college education of their children, about what happens if someone in the family has a serious illness, about how they are to manage their retirement. In the depths of the Great Recession, tens of millions worried whether they would be able 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 jet airplane to buy, the best way to shelter their income from taxes (What happens if the United States 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 helicoptered in from New York City. They worry, too, about what would happen if they fell off their perch—there 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 1 percent. Aware of the great divide, our host had brought together leading billionaires, academics, and others who were worried about inequality. As the evening's early chitchat burred on, I overheard one billionaire—who had gotten his start in life by inheriting a fortune—discuss with another the problem of lazy Americans who were trying to free ride on the rest. Soon thereafter, they seamlessly transitioned into a discussion of tax shelters, apparently unaware of the irony. Several times in the evening, Marie Antoinette and the guillotine were invoked as the gathered plutocrats reminded each other of the risks of allowing inequality to grow to excess: "Remember the guillotine" set the tone for the evening. And in that refrain they confessed a central message of this book: the level of inequality in America is not inevitable; it is not the result of inexorable laws of economics. It is a matter of policies and politics. It was, they seemed to be saying, possible for these powerful men to do something about inequality.

This is but one of the reasons why concern about inequality has become urgent even among the 1 percent: increasing numbers of them realize that sustained economic growth, upon which their 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 gathering of the world's elite in Davos in 2014, pointing out that a bus with some 85 of the world's billionaires had as much wealth as the bottom half of its population, some three billion people.¹ By a year later the bus had shrunk—it required only 80 seats. Just as dramatic, Oxfam found that the top 1 percent of the world now owned nearly half the world's wealth—and are on track to own as much of the rest of the 99 percent combined by 2016.

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

those at the top.

It was a golden age in America, but to my young eyes there appeared darker edges. Growing up on the southern shore of Lake Michigan, in one of the country's iconic industrial towns, Gary, Indiana, I saw poverty, inequality, racial discrimination, and episodic unemployment as one recession after another battered the country. Labor strife was common as workers struggled to get a fair share of America's deservedly lauded prosperity. I heard rhetoric about America being a middle-class society, but for the most part, the people I saw occupied the lower rungs of that supposed middle-class society, 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 that is a big part of the battle. I wore hand-me-down clothes from my brother that my mother had always bought on sale, with an eye toward durability rather than saving money in the short run: penny wise but pound foolish, she would say. When I was growing up, my mother, who had graduated from the University of Chicago in the midst of the Great Depression, helped my father in his insurance business. When she was working, we were left in the care of our “help,” Minnie Fae Ellis, a loving, hardworking, and bright woman. Even as a 10-year-old, I was disturbed: I wondered, Why did she have only a sixth-grade education, in a country that was supposedly so rich and that supposedly 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 school to get teacher certification and teach elementary school. She taught in the Gary public schools; when the white flight set in, she became one of the few white teachers in what had turned into a de facto segregated school. After she was forced to retire at the age of 67, she started teaching on the northwest Indiana campus of Purdue University, working to make sure that there was access for as many students as possible. In her 80s, she eventually retired.

Like so many of my contemporaries, I was impatient for change. We were told that changing society was difficult, that it took time. Even though I had not suffered the kinds of hardships that my peers faced in Gary (apart from a small amount of discrimination), I identified with those who had. It would be decades before I studied in detail the statistics concerning income, but I sensed that America was not the land of opportunity that it claimed to be: there was remarkable opportunity for some, but little for others. Horatio Alger, at least in part, was a myth: many hardworking Americans would never make it. I was one of the lucky ones for whom America did offer opportunity: a National Merit Scholarship to Amherst College. More than anything else, *that* opportunity opened up a world of other opportunities over time.

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

Readership for an analysis of inequality was limited, both among the general public and even among economists. People were not interested in the subject. Within the economics profession, there was sometimes outright hostility. This remained true even as the country's inequality began to 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 of distribution.”²

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

With stances like Lucas’s so fashionable in the economics profession, it was little wonder that economists paid almost no attention to growing inequality in the country. They didn’t pay much attention to the fact that while GDP was growing, the incomes of most Americans were stagnating. This neglect meant that ultimately they couldn’t provide a good explanation of what was going on with the economy, they couldn’t grasp the implications of growing inequality, and they couldn’t devise 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 wider audience. The resulting article, “Of the 1 Percent, by the 1 Percent, for the 1 Percent,” did have a far wider readership than my *Econometrica* article decades earlier. The new social order that my *Vanity Fair* article discussed—the 99 percent of Americans who were in the same stagnating boat—became the slogan of the Occupy Wall Street movement: “We are the 99 percent.” It presented the thesis that reverberates through the articles here and my subsequent writing: almost all of us, including many of the 1 percent, would actually be better off if there were less inequality. It was in the enlightened self-interest of the 1 percent to help construct a less divided society. I was not seeking to wage a new class war, but rather to establish a new sense of national cohesion, one that had waned as a great divide had opened up in our society.

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

Unfortunately, because of growing inequality, the American economic model has not been delivering for large fractions of the population—the typical American family is worse off than it was a quarter-century ago, adjusted for inflation. Even the fraction in poverty has increased. While a rising China is marked by high levels of inequality and a democratic deficit, its economy has delivered more for most of its citizens—it moved some 500 million out of poverty over the same period that stagnation seized America’s middle class. An economic model that doesn’t serve a majority of its 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 the themes that I had raised, and this in turn led to the invitation from the *New York Times* in 2013 to curate a series of articles on inequality that we called The Great Divide. It was my hope that, through this series, I could further awaken the country to the problem confronting us: We were not the land of opportunity that we believed we were—and that so many others believed as well. We had become the

advanced country with the highest level of inequality, and we had among the lowest levels of equality of opportunity. Our inequalities manifested themselves in numerous ways. But they were not inevitable, the inexorable workings out of the laws of economics: rather, they were the result of our policies and politics. Different policies could lead to different outcomes: better economic 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 the core of this book. For some fifteen years, I have also written a monthly syndicated column for *Project Syndicate*. Originally dedicated to bringing modern economic thinking to countries in transition to a market economy after the fall of the Iron Curtain, *Project Syndicate* in time became so successful that its articles are now published in papers all over the world, including in most of the advanced countries. Not surprisingly, many of the articles I wrote for *Project Syndicate* were concerned with one aspect of inequality or another, and a selection of these—as well as articles published in various other newspapers and periodicals—is included here.

While the focus of these essays is on inequality, I have decided to include several on the Great Recession—articles written in the run-up to the financial crisis of 2007–08 and in the aftermath, as the country and the world entered the *great malaise*. Those articles deserve a place in this volume because the financial crisis and inequality are intricately intertwined: inequality helped lead to the crisis, the crisis exacerbated already extant inequalities, and the worsening of these inequalities has created a significant downdraft in the economy, making a *robust* recovery all the more difficult. Like inequality itself, there was nothing inevitable about either the depth or the duration of the crisis. Indeed, the crisis was not an act of God, like a once-in-a-hundred-years flood or earthquake. It was something that 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 neatly separate out politics and economics. In various essays in this volume, and in my earlier book *The Price of Inequality*, I describe the nexus between politics and economics: the vicious circle by which more economic inequality gets translated into political inequality, especially in America's political system, which gives such unbridled power to money. Political inequality in turn increases economic inequality. But this process has been reinforced as many ordinary Americans have become disillusioned with the political process: in the aftermath of the 2008 crisis, hundreds of billions went to save the banks, and little went to help homeowners. Under the influence of Treasury Secretary Timothy Geithner and the National Economic Council chairman Larry Summers—who were among the architects of deregulation policies that helped to foment the crisis—the Obama administration initially did not support, or even opposed, efforts to restructure home mortgages, to relieve millions of Americans who had suffered from predatory and discriminatory lending by the banks. No wonder, 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 them. Nor have I restored the many “cuttings” of the original pieces, important ideas that had to be left out as I struggled to meet assigned word limits.³ The journalistic format has much to commend itself: its pieces are short and punchy, responding to the issues of the moment, without all the qualifications and caveats that surround so much academic writing. As I wrote these articles, engaging in the often heated debates at the time, I kept in mind the deeper messages that I wanted to convey. I hope this book succeeds in conveying these broad themes.

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

During the past decade, four of the central issues facing our society have been the great divide—the huge inequality that is emerging in the United States and many other advanced countries—economic mismanagement, globalization, and the role of the state and the market. As this book shows, those four themes are interrelated. The growing inequality has been both cause and consequence of our macroeconomic travails, the 2008 crisis and the long malaise that followed. Globalization, whatever its virtues in spurring growth, has almost surely increased inequality—and especially so, given the way we have been mismanaging globalization. The mismanagement of our economy and the 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 of the cause of our current troubles, it will only be through politics that we will find solutions: the market by itself won't do it. Unfettered markets will lead to more monopoly power, more abuses of the financial sector, more unbalanced trade relations. It will only be through reform of our democracy—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 essay which attempts to explain the context in which the articles were written or touch upon a few of the 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 leaders, including the Federal Reserve chairman Alan Greenspan, could boast of a new economy in which economic fluctuations that had been the scourge of the past would be put behind us; the so-called great moderation was bringing a new era of low inflation and seemingly high growth. But those who looked even a little bit more closely saw all of this as merely a thin veneer, masking economic mismanagement and political corruption on a massive scale (some of which had come to light in the Enron scandal); even worse, the growth that was occurring was not being shared by *most Americans*. The great divide was growing larger. The chapters describe the making of the crisis and its consequences.

After presenting in Part I an overview of some of the key issues in inequality (including my “Of the 1 Percent, by the 1 Percent, for the 1 Percent” *Vanity Fair* article, and my inaugural article for the Great Divide series in the *New York Times*), I turn in Part II to two articles providing personal reminiscences on the early awakening of my interest in the subject. Parts III, IV, and V deal with the dimensions, causes, and consequences of inequality; Part VI presents some discussions of key policy ideas. Part VII looks at inequality and policies designed to address it in other countries. Finally, in Part VIII I turn to one of the core causes of inequality in America today—the prolonged weakness of our labor market. I ask how we can best put America back to work, at decent jobs paying livable wages. An afterword contains a short interview with *Vanity Fair*'s editor Cullen Murphy that touches 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 equal 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 assortment of periodicals and newspapers over the last few years on the subject of inequality—the yawning divide that has opened up especially in America, but to a lesser extent in many other countries around the world. But the articles are based on a long history of academic research, begun when I was a graduate student at M.I.T. and a Fulbright scholar at Cambridge, UK, in the mid-1960s. Back then—and until recently—there was little interest among the American economics profession in the subject. And so, I owe a great deal to my thesis supervisors, two of the great economists of the twentieth century, Robert Solow (whose own dissertation was on the subject) and Paul Samuelson, for encouraging me in this line of research, as well as for their great insights.⁴ And an especial thanks to my first co-author, George Akerlof, who shared the 2001 Nobel Prize with me.

At Cambridge, we often discussed the determinants of the distribution of income, and I benefited enormously from conversations with Frank Hahn, James Meade, Nicholas Kaldor, James Mirrlees, Partha Dasgupta, David Champenowne, and Michael Farrell. It was there that I tutored and then began my collaboration with Anthony Atkinson, the leading scholar on inequality in the past half century. Ravi Kanbur, Arjun Jayadev, Karla Hoff, and Rob Johnson are other former students and 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 the aftermath of the Great Recession. Amidst the wreckage of the economy, it was increasingly recognized that standard economic models had not served the country or the world well; new economic thinking—including a greater focus on inequality and the limitations of markets—was needed. I wish to acknowledge the support of INET for some of the research that underlies the essays here.⁵

While the link between inequality and macroeconomic performance has long been a concern in both theoretical research and policy work, there is, at last, a growing recognition of the importance of this connection (including by the International Monetary Fund). Here, I want to acknowledge the collaboration with my Columbia colleagues Bruce Greenwald and Jose Antonio Ocampo, and the work of the Commission of Experts on Reforms of the International Monetary and Financial System, 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 and Thomas Piketty, whose painstaking work has produced so much of the data that reveals the extent of inequality at the top in the U.S. and many other advanced countries. Other leading scholars whose influence will be seen here include Francois Bourguignon, Branko Milanovic, Paul Krugman, and James Galbraith.⁷

When Cullen Murphy, then an editor at *The Atlantic Monthly*, persuaded me to write an article on some of my experiences at the White House (in an article, “The Roaring Nineties,” which eventually led to my second book for a more popular audience),⁸ it provided not only an opportunity to articulate ideas I had been pondering for some years but also a new challenge: Could I address complex ideas in a succinct way that would make them widely accessible? I had written many of my academic papers

with a co-author; the close relationship between an editor and a writer is similar in some ways, but different in others. We each had distinct roles. He knew the audience, in a way I could barely fathom. I never came to appreciate the role that a great editor plays in shaping an article. Great editors allow the voice of the author to come through, even as they improve the exposition—and in some cases, make the topic more tantalizing.

After “The Roaring Nineties” I wrote several other pieces for *The Atlantic Monthly*, and when Cullen Murphy moved to *Vanity Fair*, he continued to solicit articles from me. One of these, “Capitalist Fools” (included in this volume), written in the lead-up to and the aftermath of the Great Recession, won a prestigious Gerald Loeb Award for outstanding journalism. Evidently, under the 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 four are included here. Most importantly for this volume, he solicited and worked diligently with me on writing the article “Of the 1 Percent, by the 1 Percent, for the 1 Percent,” which, in turn, gave rise to my book *The Price of Inequality* and this book. Graydon Carter suggested the title for that article. “We are the 99%” became the slogan of the Occupy Wall Street movement, symbolizing America’s Great Divide.

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

The editors of each of these articles made invaluable contributions to the essays collected here. In particular, I want to thank Sewell Chan and Aaron Retica, who edited the *New York Times* Great Divide series (which provides the title of this volume). Even before we had strategized together in late 2012 on how to bring the issues of America’s growing inequality, in all of its dimensions and with a focus on its consequences, before the American people, Sewell had worked with me in editing the essays 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* included here. I have a proclivity for writing too long, and it is always sad to see so much of one’s writing end up on the cutting floor; but getting across a set of ideas in 750 words, or even 1,500 words, is one of the real challenges in journalism. Aaron and Sewell always added great insights as they cut away excess verbiage.

Among the many other editors to whom I am greatly indebted are Andrzej Rapaczynski, Kevin Murphy, and the other staff at *Project Syndicate*, Allison Silver (now at Thomson Reuters), Michael Hirsh at *Politico*, Rana Foroohar at *Time*, Philip Oltermann at *The Guardian*, Christopher Behr at *Harper’s*, Joshua Greenman at the *New York Daily News*, Glen Nishimura at *USA Today*, Fred Hiatt at the *Washington Post*, and Ed Paisley at the *Washington Monthly*. I should also acknowledge the encouragement and support of Aaron Edlin at the *Economists’ Voice*, Roman Frydman at *Project Syndicate*, and Felicia Wong, Cathy Harding, Mike Konczal, and Nell Abernathy at the Roosevelt 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 backing. The Roosevelt Institute, which grew out of the Roosevelt Presidential Library, has developed into one of the country’s leading think-tanks, advancing the ideals of social and economic justice for which the Roosevelts stood. The Ford and MacArthur Foundations and Bernard Schwartz have provided 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 the freedom to pursue my research, gifted me with bright students enthusiastic about engaging in debate

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 advocate~~ 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 friend and editor Brendan Curry, who once again did a superb job in editing this book and benefitted in turn from the help of Sophie Duvernoy. I am indebted too, as usual, to Elizabeth Kerr and Rachel Salzman at Norton—for this book and for their support over the years. I have also benefitted enormously over 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 time they were originally published.

As always, my biggest debt is to my wife, Anya, who strongly believes in the subjects that I discuss here and in the importance of bringing them to a wider public, who provided such encouragement and help in my doing so, who has repeatedly discussed the ideas behind all of my books and has helped 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 Minneapolis, 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 the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is *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. This decision also meant that there is inevitably some overlap in the themes discussed in the different essays. Some small edits have been 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 1967): 537–560.
5. In particular, the essay “The Book of Jobs,” originally published in *Vanity Fair*, was based on research jointly done with Bruce Greenwald and other co-authors, supported by INET. See, e.g., D. Delli Gatti, M. Gallegati, B. C. Greenwald, A. Russo, and J. E. Stiglitz, “Sectoral Imbalances and Long Run Crises,” in F. Allen, M. Aoki, J.-P. Fitoussi, N. Kiyotaki, R. Gordon, and J. E. Stiglitz, eds., *The Global Macro Economy and Finance*, IEA Conference Volume No. 150-III (Houndmills, UK, and New York: Palgrave, 2012), pp. 61–97; and D. Delli Gatti, M. Gallegati, B. C. Greenwald, A. Russo, and J. E. Stiglitz, “Mobility Constraints, Productivity 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 the Commission is available as *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis* (New York: The New Press, 2010). I co-chaired with Jean Paul Fitoussi and Amartya Sen an International Commission on the Measurement of Economic Performance and Social Progress, emphasizing the many dimensions of well-being that are not well captured in GDP. Many of the ideas of the Commission are reflected in the essays contained in this book. The work of the Commission is now being carried on at the OECD. The report of the Commission is available as J. E. Stiglitz, J. Fitoussi, and A. Sen, *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 Most 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 the *Times's* Great Divide series. The first selection was published in *Vanity Fair* in December 2007, the very month the U.S. economy slipped into a downturn that would prove to be the worst since the Great Depression.

For the preceding three years, I, together with a small band of other economists, had been warning of the impending implosion. Warning signs were, in fact, there for anyone to see—but too many people were making too much money: it was more convenient to close their eyes. There was a party going on—only a few at the top were invited, but the rest of us would be asked to pay the bill. Unfortunately, however, those who were supposed to make sure that the economy was kept on an even keel were too closely connected to those who were throwing the party and who were having all the fun (and making all the money). And that's why these chapters are included here, as a prelude. The 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 bubble in which technology stocks soared in price, but after that bubble broke, the economy slid into recession in 2001. The George W. Bush administration's all-purpose remedy for any problem was a 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 was troubling for many reasons. It brought back the deficits—undoing all the work that had been done over the preceding eight years. The Clinton administration had put off investments in infrastructure and education and programs to help the poor, all in the name of deficit reduction. I had not agreed with some of these actions—I thought borrowing to make investments in the country's future made no economic sense, and I was worried that a later administration might squander these hard-fought gains for less noble purposes.

As the economy sank into the 2001 recession, there was consensus among policymakers that the economy needed a stimulus. A far better way of providing that stimulus than Bush's tax cuts for the rich would have involved making the investments we had postponed.¹ I was already concerned about the country's growing inequality, and these inequitable tax cuts only made matters worse. I began my *New York Review of Books* article, "Bush's Tax Plan—The Dangers" (March 13, 2003) as follows: "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 a theme I return to frequently in this book. *Inequality weakens aggregate demand and the economy*. America's growing inequality was moving money from the bottom of the pyramid to the top, and since those at the top spent less of their money than those at the bottom, this weakened overall demand. During the 90s we masked the deficiency by creating the tech bubble—a boom in investment. But with the breaking of the tech bubble, the economy fell into recession. Bush responded with a tax cut aimed at the rich. With consumers worried about their future, the hoped-for stimulus to the economy from Bush's tax cuts was weak. Piling on a further capital-gains tax cut—on top of one that had been given a few years before by President Clinton—only encouraged more speculation. Since its benefits went overwhelmingly to the very top, this tax cut was particularly ineffective and also strongly increased inequality.

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

those in charge of monetary policy had not read any such label; and they were naïve market fundamentalists—believing that markets are always efficient and stable. While they underestimated the risks that their policies posed to the economy—and even to the government’s budget—they didn’t seem to care about the inequality that was growing day by day. The result is now well known: they 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 it worked only by creating a housing bubble. It should have been apparent to all that the housing bubble and the consumption boom to which it led could only be a temporary palliative. Bubbles always break. Our consumption binge meant that the bottom 80 percent of Americans were *on average* spending 1 percent of their income. By 2005 as a country we were borrowing more than \$2 billion a day from abroad. It was not sustainable, and, quoting one of my predecessors as chairman of the Council of Economic Advisers, in my speeches and writings I repeatedly warned that that which is not sustainable wouldn’t be sustained.

When the Fed started to raise interest rates in 2004 and 2005, I anticipated that the housing bubble would break. It did not, in part because we were given a kind of reprieve: long-term interest rates failed to rise in tandem. By January 1, 2006, I predicted that this could not continue.² The bubble did break not long thereafter, but it would take a year and a half to two years for the full effects to be realized. As I wrote soon afterward, “Just as the collapse of the real estate bubble was predictable, so are its consequences”³ With “by some reckonings, more than two-thirds of the increase in output and employment over the [preceding] six years ... [being] real estate–related, reflecting both new housing and households borrowing against their homes to support a consumption binge,” it should 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 Great Recession: What did we do wrong? Who is to blame? While those in the financial market, at the Fed and at Treasury would like to pretend it was just something that happened—an unpreventable, once-in-a-hundred-years flood—I believed then, and believe even more strongly now, that the crisis was man-made. It was something that the 1 percent (indeed, a sliver of that 1 percent) did to the rest of us. 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 the big banks that played a central role in this drama, this was a crime without *any* perpetrator. I don’t believe that, nor do most Americans. In three of the articles reprinted here, I attempt to find out who killed America’s economy, to trace out the historical arc that led us to this juncture.⁵ I wanted to dig deeper and go back further: there was more to the story than the stock response “The bankers lent too much and homeowners borrowed too much.”

What, I asked, had brought us to this juncture? There was incompetence and bad judgment. The ill-conceived and poorly executed war in Iraq, whose eventual costs would amount to trillions,⁶ was the most telling example. But the main blame I assign to a combination of ideology and special-interest pressure—the same combination that has led to the country’s growing inequality. I point a finger particularly at the belief that unfettered markets are necessarily efficient and stable. We should know

otherwise: major economic fluctuations have marked capitalism from the start. Some have suggested that ~~all that needs to be done is for the government to ensure macrostability~~—as if market failures occur only in big macrodoses. I suggest otherwise: the macrocrises are only the tip of the iceberg; less noticeable are myriad inefficiencies. The crisis itself provides ample evidence: the market collapse was a result of a host of failures in the management of risk and the allocation of capital, mistakes made by mortgage originators, investment banks, credit-rating agencies—indeed by millions 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 who advocated free markets, again evidenced in the Great Recession: the *seeming* advocates of free-market economics were more than willing to accept government assistance—including massive bailouts. Such policies distort the economy, of course, and lead to poorer economic performance; but reflecting the theme of this book, they also have distributive consequences—with more money going to those at the 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 the time. “The Economic Consequences of Mr. Bush” details *some* of the *economic* consequences of the president. Though conservatives rail against deficits, they seem to have a particular knack for creating them. Large deficits first began to characterize the American economy with President Reagan, and it was not until President Clinton that the deficits turned into surpluses. But in short order Bush reversed this—the largest turnaround (in the wrong direction) in the nation’s history—partly as a result of paying for two wars on the credit card, partly as a result of tax cuts for the rich, partly as a result of largesse to drug companies and the expansion of other forms of corporate welfare—the increased “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 the 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 to make investments, and especially not if this spending occurs when the economy is weak. But the Bush deficits were especially problematic: they occurred during a time of seeming prosperity, even if the prosperity reached only a few. The money was spent not to strengthen the economy but to strengthen the coffers of a few corporations and the pocketbooks of the 1 percent. Most troublesome was that we saw storms ahead—Would we have the wherewithal to weather the storms? Would the conservatives at that point again demand fiscal prudence, imposing austerity at the moment the economy desperately 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 I could not provide a full litany of what had gone wrong. I didn’t note that while inequality had mildly improved during the Clinton years, the income of a *typical* American (median income) adjusted for inflation actually fell under Bush—and this was true even before the recession made things so much worse. More Americans lacked health coverage. And they faced more insecurity—a greater risk of losing their jobs.⁹

But perhaps his most grievous failure was setting up the conditions for the Great Recession, topics that I delve into at greater length in the next two chapters. Bush’s tax cuts for the rich, which I discussed above, play prominent roles in the drama—while they did not provide much stimulus, they exacerbated the country’s already large inequality. They illustrate a second theme to which I will 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 response

to a weakened economy born of growing inequality. The bubble eventually breaks and wrecks havoc on the economy. (Of course, the Fed should have been aware of this risk. But its leadership evinced an almost blind faith in markets and, like Bush, who had reappointed the Fed chair Alan Greenspan and later appointed the Fed chair Ben Bernanke—he had been his chief economic adviser—the institution 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 that matter. The United States could have responded to the weakened economy by investing in America, or by undertaking policies that reduce inequality. Both of these would have led to a stronger economy and a fairer society. But economic inequality inevitably leads to political inequality. What happened in America is what one comes to expect of a polity with a divided society. Rather than more investment, we got tax cuts and corporate welfare for the rich. Rather than regulations that would stabilize the economy and protect ordinary citizens, we got deregulation that led to instability and left Americans prey to the bankers.

Deregulation

To understand the makings of the Great Recession, one has to go back in time, to the deregulatory movement that was given such a boost by President Reagan. In “Capitalist Fools” I identify five 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 illustrate the new power of finance—the appointment of Greenspan because he supported deregulation, the deregulation itself, begun under Reagan, but continuing under Clinton, including the destruction of regulatory walls between investment and commercial banks.¹¹

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

But we didn’t know the full extent of the moral depravity of the banks, of their willingness to engage in exploitive practices, or their recklessness. We didn’t know, for instance, just how widely they engaged in discriminatory lending. We didn’t know of their manipulation of the foreign exchange and other markets. We didn’t know of the sloppiness in their record keeping, in their race to write an ever larger number of bad mortgages. And we didn’t know the full extent of fraudulent behavior, on the part not just of the banks but of the credit-rating agencies and other market participants. Competition among rating agencies to provide a high rating (they were paid only if the investment banks “used” their ratings, and they used only the ratings that were most favorable) had led them to 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 sector 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 good reason. As Jamie Galbraith of the University of Texas has so persuasively shown,¹² there is a clear link between the increasing financialization of the world's economies and the growth of inequality. The financial sector is emblematic of what has gone wrong in our economy—a major contributor to the growth of inequality, the major source of instability in our economy, and an important cause of the economy's poor performance over the last three decades.

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

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

The policies failed: Africa saw its per capita income fall; Latin America saw stagnation, with the benefits of the limited growth going to a small sliver at the top. Meanwhile, East Asia took a different course; with governments leading the development effort ("the developmental state," as it was called) incomes per capita rapidly doubled, tripled—eventually increasing eightfold. In the third of a century 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 percent that of the United States, to being the largest economy in the world (measured in what economists called purchasing power parities). By the end of the next quarter-century, it was slated to be twice the size of the U.S. economy.

But ideologies are often more influential than evidence. Free-market economists seldom looked at the success of the managed-market economies of East Asia. They preferred to talk about the failure of the Soviet Union, which eschewed the use of the market altogether. With the fall of the Berlin Wall and the collapse of Communism, it *seemed* that free markets had triumphed. Though this was the wrong lesson to be drawn, the United States used its sway as the sole remaining superpower to advance its economic interests—or, more accurately, to advance the interests of its large and powerful corporations. And among these, perhaps the most influential was the financial sector. The United States pushed countries to liberalize their financial markets. The result: country after country faced 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.~~ Under both Clinton and Bush we pursued policies at home and abroad that were demanded by the financial sector. In “The Anatomy of a Murder” I touch on how these policies led to a crisis. (In my book *Freefall* I discuss these issues more extensively.)

Here my concern is how the financial sector contributes to growing inequality. There are several 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 pie and attempting to get a larger size of a preexisting pie—and in the process, the size of the pie may 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 other wealthy people, including much of what they acquire through market manipulation, much of it comes from siphoning money from the bottom of the economic pyramid. This is true of the billions generated through abusive credit card practices and predatory and discriminatory lending. But it is even true of their abuses of monopoly power in credit and debit cards: the excessive charges they impose on merchants act like a tax on every transaction—a tax that enriches the coffers of the banks rather than the well-being of society; in competitive markets, the charges inevitably get passed on in 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 economic 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 on those terms there has been zero growth over the past quarter-century. But even if one uses GDP as the yardstick, performance has been anemic—far worse than in the decades before financial liberalization and the financialization of the economy—and it’s hard to attribute what growth there has been to the financial sector. But though it’s hard to show any positive effect on growth, it’s easy to establish the connection between the financial sector’s shenanigans and the economy’s instability, evidenced most strongly by the 2008 crisis.

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

The excessive risk-taking in the financial sector, combined with its success in curbing regulation, led, in a way that was predictable and predicted, to the most severe crisis in three-quarters of a century. As always, it is the poor who suffer the most from such crises, as they lose their jobs and face protracted unemployment. In this case, the effects on ordinary Americans were particularly grave, given that more than 14 million homes were foreclosed from 2007 to 2013, and given the magnitude 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 restoring lending to small and medium-size enterprises, and as a result was much more effective in restoring

wealth to the rich than in benefiting average Americans or in creating jobs for them. That's why in the first three years of the so-called recovery, some 95 percent of the increases in income went to the top 1 percent, and why six years after the start of the crisis, median wealth was down 40 percent relative to precrisis levels.

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

Transparency

There is a broad understanding that market economies work best with transparency—it is only with good information that resources can be well allocated. But while markets—especially financial markets—may preach transparency for others, they do what they can to limit it for themselves; after all, with transparent and competitive markets, profits are driven to zero. Ask any businessperson: it is no fun to be in such markets. One has to struggle to survive. There's little upside potential. That's why they make such a big deal over business secrets and confidentiality. All of this is natural and well understood. But government is supposed to weigh in on the other side, to countervail these tendencies and to make markets more competitive and transparent. But this won't happen if government is captured by businesses, and especially by financial markets. And that's where I felt special disappointment with what happened in the Clinton administration. One somehow expects this of administrations on the right, but not of one that claimed to be "putting people first." In "Capitalist Fools" I explain how 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 the 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 category: economists—the many economists who claimed that markets were self-regulating, who provided the so-called intellectual underpinnings to the deregulatory movement, in spite of the long history of the failure of unregulated and underregulated financial markets, and in spite of important advances in economic theory, which had explained why financial markets need to be and should be regulated. These advances focused on the importance of information imperfections and imperfections in competition, important in all sectors of the economy, but especially in the financial system. Moreover, when an ordinary business fails, there are consequences for its owners and their families, but not typically for the entire economy. As our political leaders and the banks themselves said, we cannot

allow any of the big banks to fail. But if that is the case, then they must be regulated. For if they are too big to fail, and they know it, excessive risk-taking is a one-sided bet: if they win, they keep the 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 to merge, so that today concentration of market power is even greater than it was before the crisis. This concentration has one further consequence: it leads to a concentration of political power, so evident in the ongoing struggle to pass effective bank regulation. One area where progress was made in Dodd-Frank was to circumscribe the ability of federally insured financial institutions from writing derivatives—those risky products that had led to the collapse of AIG and the largest bailout in the history of the planet. While there is disagreement about whether these financial products are gambling instruments or insurance, there is no justifiable reason that they should be provided by lending institutions, and especially those insured by the government. But Congress, with language written by 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 the economics profession. Economists are wont to say that incentives matter: indeed, that is the one thing that economists seemingly agree on. The financial sector provides ample rewards for those who agree with them: lucrative consultancies, research grants, and the like. The documentary raises a question: 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 I 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. The 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 ample warnings, those in charge, both at the Fed and in the administration, *seemed* surprised, and I believe genuinely were—a remarkable testament to the ability to close one's senses to information that one finds unpleasant and contradicts one's preconceptions. After all, the housing bubble had broken in 2006, the economy had plunged into recession in 2007, the Fed had been supplying unprecedented funds to banks in 2007 and 2008, and there had been a very expensive rescue of Bear Stearns in March 2008. Virtually any economist who did not blindly believe in the virtues of the free and unregulated markets, their efficiency and stability, saw the writing on the wall. Yet the Fed chair Ben Bernanke would blithely claim that the risks were “contained.”¹³

The precipitating event that plunged the country from the recession that began in December 2007 (which Bush's policies—another tax cut for the rich in February 2008—had done little to end) into a *deep* recession, the worst since the Great Depression, was the collapse of Lehman Brothers on September 15, 2008. After confidently asserting that letting it collapse would have only a limited effect on the economy—and would teach banks an important lesson—the Fed and Treasury took a 180-degree turn and bailed out AIG, the most expensive bailout in human history, an amount of corporate welfare to one firm that exceeded that given to the millions of poor Americans over years and years. Later we were to learn why—and why they did everything they could to hide what they were doing from the American people: the money passed quickly from AIG to Goldman Sachs and

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 more the interests and perspectives of the banks and the 1 percent than it did the agenda I laid forth, as I feared at the time. And so too, the recovery has been anemic. The Obama administration may claim that it stopped the economy from falling into another Great Depression. Whether or not that is true, it is clear that it didn't engineer a robust recovery. As this book goes to press, seven years later, most Americans' incomes are still below what they were before the crisis. Wealth in the middle is almost back to the level of 1992, some two decades ago.¹⁴ The recovery was designed by the 1 percent, for the 1 percent. President Obama may have claimed in his State of the Union address on January 20, 2015, that the crisis is over. But not even he would suggest that all is well. GDP is some 15 percent below what it would have been had there not been the crisis, and the gap between where we are and where we would have been is barely closing. Trillions have been unnecessarily lost by following the 1 percent's agenda.

There were five items on my agenda. The first was a recapitalization of the banks—in a way that 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 out 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 impose conditions—we want to make sure that the money is spent in the way intended. The irony is that the U.S. Treasury is among those most insistent on such conditionality. But when it came to imposing 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 the economy function. But because we imposed no conditions, the money went instead to pay megabonuses—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, repaid from one pocket with money the government put into another. The Fed lent money to the banks at a zero interest rate, which they then lent out to the government and big businesses at far higher interest 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 bank mortgages to move off the banks' books and onto the government balance sheet. Even then, what the government got was but a fraction of that received by private investors, like Warren Buffett, who had 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 others were willing to extend to the banks. Doing so redistributed money from ordinary citizens to the wealthy bankers. Had the banks been charged what they should have been, our national debt would be lower and we would have more money to invest in education, technology, infrastructure—investments 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 on trickle-down economics: throw enough money at the banks, and everyone will benefit. It didn't work out that way, and predictably so.¹⁵ I had argued, by contrast, that we should have tried a bit of trickle-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 would require stemming the tide of foreclosures. Even before he became president, I warned Obama that bailing out the banks would not be enough. He had to help America's homeowners. But his secretary of treasury Tim Geithner, who had been the head of the New York Fed as the banks engaged in the

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