The Price of Inequality

Preface to the paperback edition

Not just in the United States but around the world as well, there is mounting concern about the increase in inequality and about the lack of opportunity (piv).

The wealthiest 5 percent of Americans, who own more than two-thrids of all household stock wealth, are back on track (pxi). The 400 wealthiest Americans took home an hourly “wage” of $97,000 in 2009 – a rate that has more than doubled since 1992 (pxii).

All of the wealth accumulation in the United States has gone to the top. If the bottom had shared equally in America’s increase in wealth, its wealth over the past two decades would have gone up by 75% (pxii).

Today, women in the United States, on average, have the lowest life expectancy of women in any of the advanced countries (pxiii). Non-Hispanic white women without a high school diploma lost about five years of life expectancy between 1990 and 2008. The three year decline in life expectancy of white males withot a high school diploma over the same period is only slightly less dramatic (pxiii).

Not surprisingly, health care experts have drawn parallels between recent declines in the United States and what happened in Russia. The five year decline for white women rivals the catastrophic seven year drop for Russian men in the years after the collapse of the Soviet Union (pxiv).

Much of the concentration of America’s wealth at the top results from rent-seeking – including monopoly profits and the excessive compensation of some CEOs, and espccially that of the financial sector (pxv).

And while we may be able to do little to change the direction of market forces, we can circumscribe the rent seeking. Or at least we could if we managed to get our politics right (pxv).

The gap in test scores between rich and poor Americaln children is roughly 30-40% wider than it was 25 years ago. In the new version of an old myth, the rich are the job creators; give money to the rich and there will be more jobs (pxvi).

But in a world of globalization, creating market value has become completely separated from creating jobs. Not only doesn’t the money given to the top not necessarily go into “job creation” and innovation; some of it goes into distorting our polictics, especially in theis new ear of unbridled campaign contributions ushered in by *Citizens United* (pxvii).

The same old myth that we should celebrate the wealth of those at the top because we all benefit has been used to justify the maintenance of low taxes on capital gains. But most capital gains accrue not from job creation but from one form of speculation or another (pxvii).

Many of those who are working hard feel they are being taken advantage of, that their taxes are being used either to bail out rich bankers or to provide welfare payment for people who refuse to work. They see themselves as “victims” and this perception has played a role in the rise of the Tea Party, which seeks to downsize government (pxviii).

Nothing perhaps gave more impetus to this movement than the huge giftss to the banks and the bankers; government stepped in to help those who had caused the crisis, and did little to help those who suffered (pxviii).

The Tea Partyers and others sympathetic to them were right to be outraged but their diagnosis was wrong: without government, they would have suffered even more; without government, the banks would have abused them even more (pxviii).

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In a society with an adequte safety net, individuals can take on more high-return, high risk activities if they know there is a safety net that will protect them if things don't work out. It's one of the reasons that some economies with better social protection have been growting much more rapidly than that of the United States, even during the recent recession (pxx).

Part of America's problem today is that too many of those at the top don't want to contribute their fair share of the "public goods" tat are necessary if our society and are economy, are going to function (pxx).

While there may be some disagreement about what "fair" means, when those at the top pay a smaller percentrage of their income than those with much less income, it is clearly unfair (pxx).

If our economic system leads to so many people without jobs, or with jobs that do not pay a liveable wage, dependent on government for food, it means that our economic system has not worked in the way it should, and then government needs to step in (pxxi).

If a country doesn't give a large proportion of the populaton the education they need to earn a decent living, if employers won't pay workers a decent wage, if a society provides so little opportunity that many people feel alienated and demotivated, then that society and its economy don't work well (pxxii).

It shouldn't, of course, come as a big surprise that the wealthiest of Americans are promoting an economic fantasy in which their further enrichment benefits everyone. It is perhaps surprising that they have done such a good job in selling those fantasies to so many Americans (pxxii).

Global Perspectives

The UK has the dubious deistinction of being the best "emulator" of the American model. Thirty years ago, inequality in Britain was just average for the advanced industrial countries. Now it is second onl the the United States. finance plays perhaps an even more important role in British inequality than it does in the United States (pxxiii).

The London Interbank Lending Rate (LIBOR) is just a made-up number a fiction on which must of Western financial markets rest. As investigators looked more closely into Libor, they realized that it had been phoney for a long time. The banks had been manipulating the number. Libor continues to be used and manipulated (pxxiv).

Spain has been especially hard hit by the global slump. Youth unemployment in Spain is at 50 percent and so Spain can safely be said to be in a depression (pxxiv). Theought the problems in the eurozone first became apparent in Greece, other countries such as Ireland, Portugal, Spain , Cyprus and Italy soon joined the list of countries facing difficulties (pxxv).

The length of the list should make it clear that it is not a matter of one country going "astray". The prescriptions for these countries were misguided. The policies have been circumscribed by ideology; market fundamentalist ideology in particular which serves the interests of the top at the expense of the rest of the society (pxxv).

What followed from the diagnosis was austerity – never mind that there have been no instances of countries that have recovered from a crisis through austerity (pxxvi). Austerity has led not only to skyrocketing unemployment and declining wages but also to massive cutbacks in public services at a time when those services are needed most (pxxviii).

Many of the 1 percent are unscathed, at least for now. Free mobility of labour without tax harmonization is an invitation to a race to the bottom. Tax competition weakens the ability to engage in progressive tax policies (pxxviii).

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Inequality has been increasing in Japan and most European countries. For Japan and Europe, as for the United States the question is more one of politics than economics. Because policies are available that would simultaneously increase growth and equality – creating a shared prosperity (pxxix).

The growth of inequality is certainly apparent in China but it is far from inevitable. Brazil has seen a reduction in inequality, as a result in investments in education and programs to protect the 99%, especially children (pxxx).

Where did we go astray?

There is no easy answer to such a question but clearly the election of President Ronald Reagan represetnted a turning point in the United States. This was the beginning of deregulation of the financial sector and the reduction in the progressivity of the tax system (pxxxi).

Deregulatoin led to the excessive financialization of the economy with 40 percent of all corporate profits going to the financial sector. The path of degregulation upon which Reagan set the country was, unfortunately, followed by his successors. So was the policy of lowering taxes at the top (pxxxi).

The result is that the top 400 income earners in the United States paid an average tax rate of just 19.9 percent in 2009 (pxxxi). Reagan's breaking of the air traffic controller's strike in 1981 is often cited as a critical juncture in weakening the unions, one of the factors why workers have done so badly in recent decades (pxxxii).

Some of the growth in inequality can be attributed to globalization and the replacement of semiskilled jobs with new technology and outsourced labour. What's different about America however is the remarkable growth in incomes at the very top – the 1 percent and top 0.1 percent – and the greater poverty at the bottom (pxxxii).

The fact that the United States has the least progressive tax system and the most inequality in "market" incomes is not an accident. It shows up systemically in the data: on average, countries with less progressive tax systems have more inequality (pxxxiii).

And with a political system that allows the rich to exercise so much influence, it's perhaps no surprise that taxes for the rich are as low as they are (pxxxiii).

Is there hope?

There are a few rays of hope, although the reasons for despair are obvious: the low levels of inequality of opportunity suggest that inequality in the future may be even worse than it is today (pxxxiii).

Our economy, our democracy and our society would all benefit from reducing inequality and increasing equality of opportunity. Some countries seemed to have grasped this. The question is, will America? (pxxxiv)

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Preface

There are moments in history when people all over the world seem to rise up, to say that something is wrong, to ask for change. A youth uprising that began in Tunisia spread to nearby Egypt, then to other countries in the middle east (pxxxvii).

There is a common understanding that the economic and political system has failed and that both are fundamentally unfair. The protestors were right that something was wrong. The gap between what our economic and political systems are supposed to do – and what they actually do became too large to be ignored (pxxxviii).

The protestors took to the streets in order to push the system to change. In the United States, the "Occupy Wall Street" movement echoed the same refrain. The unfairness of a situation in which so many lost their homes and their jobs while bankers enjoyed large bonuses was grating (pxxxix).

Their slogan became "the 99 percent". Three themes resonated around the world: that markets weren't working the way they were supposed to; that the political system hadn't corrected market failures; and that the economy and political systems are fundamentally unfair (pxxxix).

The Failure of Markets

Markets clearly have not been working in the way that their boosters claim. The virtue of the market is supposed to be its efficiency. But the market is obviously not efficient. The most basic law of economics is that demand equals supply. But we have a world in which there are huge unmet needs. At the same time we have vast underutilized resources – workers and machines that lie idle or are not producing up to their potential (pxl).

As of March 2012, some 24 million Americans who would liked to have a full-time job couldn't get one. In the United States, we are throwing millions out of their homes. We have empty homes and homeless people. America has created a marvelous economic machine, but evidently one that worked only for those at the top (pxli).

So Much at Stake

We are paying a high price for our inequality – an economic system that is less stable and less efficient, with less growth, and a democracy that has been put into peril (pxli). As our economic system is seen to fail for most citizens, and as our political system seems to be captured by moneyed interests, confidence in our democracy and in our market economy will erode along with our global influence (pxli).

In some countries the Occupy Wall Street movement has become closely allied with the antiglobalization movement. The interconnectedness of peoples, countries and economies around the globe is a development that can be used as effectively to promote prosperity as to spread greed and misery (pxlii).

The same is true of the market economy: the power of markets is enormous but they have no inherent moral character. Government has played a major role in these advances, a fact that free-market advocates fail to acknowledge (pxlii).

It is plain that markets must be tamed and tempered so they work for the benefit of most citizens. The message of Occupy Wall Street is that markets must be tamed and tempered.

Inequality and Unfairness

More than anything else, a sense that the economic systems and political system is unfair is what motivates protests around the world. In Tunisia and Egypt and other parts of the Middle East, it wasn't merely that jobs were hard to come by but that those jobs that were available went to those with connections (pxliii).

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Americans grasped that the Occupy Wall Street mprotestors were sepeaking to their values, which is why two-thirds of Americans said they supported the protestors (pxliii). It was rightly perceived to be grossly unfair that many in the financial sector walked off with outsized bonuses while those who suffered the crisis brought on by these bankers went without a job (pxliv).

Government bailed out the banks but was reluctant to even extend unemployment insurance to those who no fault of their own could not get employment after searching for months and months (pxliv). What happened in the midst of the crisis made it clear that it was not contribution to society that determined relative pay, but something else: bankers received large bonuses even though their contributon to society and even to their firms – was negative (pxliv).

Increasingly, the American Dream which saw the country as the land of opportunity began to seem just that: a dream, a myth reinforced by anecdotes and stories, but not supported by real data (pxlv).

There is a corresponding myth – rags to riches in three generations – suggesting that those at the top have to work hard to stay there. This too is largely a myth because the children of those at the top will more likely than not, remain there (pxlv).

The protestors scrutinized how our economic and judicial system works, and they have found the system wanting for poor and middle class Americans – not just for miniorities but for most Americans of all backgrounds (pxlv).

If no one is accountable, if no individual can be blamed for what has happened, it means that the problem lies in the economic and political system (pxlvi).

From Social Cohesion to Class Warfare

The slogan "we are the 99 percent" may have marked a turning point in the debate about inequality in the United States. Americans have always shied away from class analysis; America, we like to believe, is a middle class country, and that belief helps bind us together (pxlvi).

Those in the 99 percent are continuing with the "we are all middle class" tradition but with one slight modification: they recognise that we are all not moving together. The vast majority is suffering together and the very top – the 1 percent – is living a different life (pxlvi).

The 99 percent marks an attempt to forge a new coalition – a new sense of national identity based not on the fiction of a universal middle class but on the reality of the economic divides within our country and our society (pxlvi).

For years there was a deal between the top and the rest of our society: we will provide you jobs and prosperity if you let us walk away with the bonuses. But those in the 1 percent are walking away with the riches, but in doing so they have provided nothing but anxiety and insecurity to the 99 percent (pxlvii).

Is our market system eroding fundamental values?

Our system seems to be undermining a sense of "fair play". Something has happened to our sense of values, when the end of making money justifies the means, which in the U.S. subprime crisis meant exploiting the poorest and least-educated among us (pxlvii).

Much of what has gone on can only be described by the words "moral deprivation". Something wrong happened to the moral compass of so many people working in the financial sector and elsewhere. The brightest of the bright who went to work on Wall Street put on hold their dreams of making a life saving discovery, of building a new industry, of helping the poorest out of poverty as they reached out for salaries that were beyond belief (pxlviii).

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But then, too often something happened: it wasn't that the dreams were put on hold, it's that they were forgotten. Capitalism is failing to deliver what was promised but is instead delivering what was not promised – inequality, pollution, unemployment, and most important of all, the degredgation of values to the point where everything is acceptable and no-one is accountable (plxviii).

Failure of Political System

It was perhaps more surprising that it took so long for the protest movements to begin than that the protests eventually broke out (pxlix). One interpretation of the long delay in the arrival of mass protests was that, in the aftermath of the crisis, there was hope in democracy, faith that the political system would work (pxlix).

The protestors have called into question whether thee is a real democracy. Increasingly, and especially in the United States, it seems that the political system is more akin to "one dollar one vote" than one person one vote (pl).

Rather than correcting the market failures the political system is reinforcing them (pl). We shouldn't have expected the architects of the system that has not been working to rebuild the system to make it work – they didn't (pl).

A political system that amplifies the voice of the wealthy provides ample opportunity for laws and regulations to be designed in ways that further enrich the wealthy at the expense of ordinary citizens (pl).

The economic elite have pushed for a framework that benefits them at the expense of the rest (pl).

What the protestors are asking for and what they are accomplishing

The protestors, perhaps more than most politicians, grasped what was going on (pli). At one level they were sking for so little: for the right to use their skills, for the right to decent work at decent pay, for a fairer economy and society, one that treats them with dignity (pli).

For markets to work the way markets are supposed to, there has to be appropriate government regulaton. But for that to occur, we have to have a democracy that reflects the general interests – not just the special interests or those at the top (pli).

In some ways the protestors have already accomplished a great deal: think tanks, government agencies, and the media have confirmed their allegations, the failures not just of the market system but of the high and unjustifiable level of inequality (plii).

Of this we can be sure: these young protestors have already altered public discourse and the consciousness of ordinary citizens and politicians alike (plii).

We are only just beginning to grasp how far our country has deviated from our aspirations (plii). One of the roles that government undertakes is to redistribute income, especially if the outcomes of market processes are too disparate (pliii).

We have a system that has been working overtime to move money from the bottom and the middle to the top, but the system is so inefficient that the gains to the top are far less than the losses to the middle and bottom (pliii).

We often use the term "the 1 percent" loosely, to refer to the economic and political power of those at the top. What we really have in mind is a much smaller group – the top one-tenth of 1 percent (pliii). In other cases, in discussing access to elite education, for instance, there is a somewhat larger group – perhaps the top 5 percent to 10 percent (pliv).

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Much of the inequality at the top is associated with finance and corporate CEOs who have helped shape our views about what is good economic policy. We need to find out what is wrong with those views if we are going to change things (pliv).

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America's 1 Percent Problem

Recent U.S. incme grwoth primarily occurs at the top 1 percent of the income distribution (p1-3). As a result there is growing inequality (p2-4). Those at the bottom and the middle are actually worse off today than they were at the beginning of the century (p4 -8).

Inequalities in wealth are even greater than inequalities in income (p8–10). In equalities are apparent not just in income but in a variesty of other variables that reflect standars of living such as insecurity and health (p10-14).

Life is particularly harsh at the bottom – and the recession has made it much worse (p14 – 17). There has been a hollowing out of the middle class (p17-21). There is little income mobility – the notion of America as a land of opportunity is a myth (p22-25).

America has more inequality than any other advanced industrialized country (p26 -28). It does less to correct these inequalities and inequality is growing more than in many other countries (p28 – 30).

The American Right finds these facts inconvenient. This analysis runs counter to some cherished myths that it would like to propagate. That America is a land of opportunity, that most people have been benefiting from the market economy, especially in the era sinse Reagan deregulated the economy and downsized government (p31).

Members of the Right would like to deny the facts but the accumulation of data makes it hard to do so (p31). They especially can't deny that those at the bottom and the middle are doing poorly and those at the top are grabbing an increasing proportion of the nation's income (p32).

The chances that those in the middle or the bottom will make it to the top are far less than those at the top will remain there (p32). Nor can the Right deny that the government can really help ameliorate poverty – it has done so for the elderly. The cutbacks in government programs are likely to increase poverty, unless they are very carefully designed (p32).

In response, the Right offers four retorts:

1. In any year someone will be down and out while someone else will enjoy a bonanza (p32).

2. That poverty in the United States is not real poverty – people have TVs and such like (p32).

3. Quibbling about the statistics – that poverty is overestimated (p33).

4. Attempting to do anything will kill the golden goose. As Mitt Romney put it: inequality is something that should be discussed quietly and privately (p33).

We can no longer ignore America's growing inequality and its economic, political and social consequences. But if we are to do something about it, we must understand the economic, political and social forces that give rise to it (p34).

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Rent Seeking and the Making of an Unequal Society

American inequality didn't just happen. It was created. That outsized inequality is not predestined offers reasons for hope, but in reality it is likely to get worse. The forces that have been at play in creating these outcomes are self-reinforcing (p35).

Even though market forces help shape the degree of inequality, government policies help shape those market forces. Much of the inequality that exists today is a result of government policy, both what the government does and what it does not do (p35).

Government has the power to move money from the top to the bottom and the middle, or vice versa. In this recession the share of wages has actually fallen while firms are making good profits. We have to rein in the excesses at thetop, strengthen the middle and help those at the bottom (p36).

In the precapitalist socieities of the West, to question inequality was to question the social order and even God's will. Those with power use that power to strengthen their economic and political positions, or at the very least to maintain them. They also attempt to shape thinking, to make acceptable differences in income that would otherwise be odious (p37).

In 'marginal productivity theory", those with higher productivities earn higher incomes that reflect their greater contributions to society. But we can hardly say that the bankers who caused the financial collapse make a greater contribution to society than everyone else (p37).

In a modern economy, government sets and enforces the rules of the game. But our political system has increasingly been working in ways that increase the inequality of outcomes and reduce equality of opportunity (p39).

Those at the top have used their power to shape the rules of the game in their favour, and to extract from the public what can only be called large "gifts" (p39). Economists have a name for these activities – Rent Seeking – getting income not as a reward to creating wealth but by grabbing a larger share of the wealth that would have otherwise been produced without their effort (p40).

There are two ways to become wealthy – to create wealth and the take wealth from others. The former adds to society, the latter subtracts from it because by taking wealth away from others, wealth is destroyed (p40). Much of the wealth at the top and the suffering at the bottom in the United States today stems from wealth transfers instead of wealth creation (p40).

General Principles

Adam Smith, the father of modern economics, argued that the private pursuit of self-interest would lead, as if by an invisible hand, to the well being of all. In the aftermath of the financial crisis, no one today would argue that the bankers' pursuit of self-interest had led to the well-being of all (p41).

When markets work well it is because private rewards and social contributions are equal, as had been assumed by marginal productivity theory (p41). Deregulation in the 1980s led to scores of financial crises in the succeeding three decades, of which America's crisis in 2008-09 was the worst (p43).

But those governmental failures were no accident; the financial sector used its political muscle to make sure that the market failures were not corrected and that the sector's private rewards remained well in excess of their social contributions (p43).

The focus of businesspeople is simply to make markets work for *them* to make them more profitable (p43). In business school we teach students how to recognise and create barriers to competition – including barriers to entry – that help ensure profits won't be eroded (p44).

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While lack of transparency results in more profits for the bankers, it leads to lower economic performance (p44). Without good information, markets can't exercise any discipline. No one can know the true financial position of a bank and other financial institutions today – and the shadowy derivative transactions are part of the reason (p45).

One of the ways that those at the top make money is by taking advantage of their market and political power to favour themselves, to increase their income at the expense of the rest (p45). The financial sector has invested heavily in lobbying and campaign contributions and the investments have paid off (p46).

Those at the top have managed to design a tax system in which they pay less tax than their fair share. They pay a lower fraction of their income than those who are much poorer. We call such tax systems regressive (p47).

Regressive taxes and rent seeking, which takes money from the rest of society and redistributes it to the top, are at the core of growing inequality. Strong unions have helped to reduce inequality (p47).

Rent Seeking

The term "rent" was originally used to describe the returns to land since the owner of the land receives these payments by virtue of his ownership of the land and not because of anything he *does* (p48). This stands in contrast to the situation of workers who receive compensation for the *effort* they provide (p48).

Eventually the term was expanded further to include the returns on simple ownership claims. Among the countries with the greatest inequality are those with the most natural resources. Evidently, a few in these countries are better at rent-seeking than others and they ensure that the benefits of these resources accrue to themselves (p49).

Another form of rent seeking is selling to government products at above market prices. The drug companies and the military contractors excel at this form of rent-seeking (p50). None of the innovators and scientists who have made such huge contributions to the society are rewarded by the economic system (p51).

Instead many of the individuals at the top of the wealth distribution are, in one way or another, geniuses at business. Tim Berners-Lee, who invented the world wide web, has never made it to the Forbes list. But Mark Zuckerberg and Steve Jobs who built their business empires on the shoulders of people such as Tim Berners-Lee are in the list (p51).

A closer look at the successes of those at the top of the wealth distribution shows that more than a small part of their genius resides in devising better ways of exploiting market power and other market imperfections and in finding better ways of ensuring that politics works for them rather than the society more generally (p51).

Another large group of rent-seekers are top-flight lawyers who become wealthy by helping others with their rent-seeking in ways that skirt the law (p53). They help design the complex tax laws in which loopholes are put and they helped design the complex derivatives market (p53).

The laws of competition say that profits, beyond a normal return to capital, are supposed to be driven to zero, and quickly. This is because success will attract entry and profits quickly disappear. The real key to success is to make sure there won't ever be any competition (p53).

There are other ways to get government-sanctioned monopolies. Patents typically give the inventor a monopoly over that innovation for a temporary time period. But America's patent laws are designed not to maximize the pace of innovation but rather to maximize rents (p54).

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Chicago school economists like Milton Friedman belive in free unfettered markets and that markets are naturally competitive. Foundations like the right-wing Olin foundation organized a massive program to "educate" people, especially judges regarding these new doctrines of law and economics (p55).

A new and powerful branch of economics called game theory explained how collusive behaviour can be maintained tacitly over extended periods of time. When Microsoft offerd Internet Explorer at a zero price with its operating system Netscape was doomed (p57).

Microsoft's methods were so blatent that courts and tribunals throughout the world charged it with anti-competitive practices. And yet Microsoft won. It realized that a monopoly position, once atainted, is hard to break (p57).

But Microsoft was not a real innovator. It didn't invent the first widely used word processor, the first spreadsheet, the first browser. Innovation lay elsewhere. This is consistent with the theory and historical evidence that monopolists are not good innovators (p58).

There are good political reasons not to take to tough a position on monopolies, it's not good for campaign contributions to be too tough on, say Microsoft (p59).

Politics: getting to set the rules and pick the referee

It's one thing to win in a fair game. It's quite another to be able to write the rules of the game – and to write them in ways that enhance one's prospects of winning. And it's even worse when you can choose your own referees (p59).

The problem is that leaders in most sectors use their political influence to get people appointed to the regulatory agenicies who are sympathetic to their perspectives. Economist refer to this as "regulatory capture" (p59).

Sometimes those on the regulatory commissions come from and return to the sector that they are suppposed to regulate. Sometimes the mindset of regulators is captured by those whom they regulate. This is called "cognitive capture" and is more of a sociological phenomenon (p59).

The bankers have unleashed enormous numbers of lobbyists to persuade any and all who play a role in regulation that they should not be regulated – an estimated 2.5 for every political representative (p60).

Banks and their lobbyists work strenuously to appoint regulators who have already been "captured" in one way or another. The bankers try to veto anyone who does not share their belief (p60).

There is another way to become wealthy and that is to have the government hand you cash. A little-noticed change in regulation can reap billions of dollars. For example, a provision in the law that prohibited government from bargaining for prices on drugs was, in effect, a gift of some $50 billion or more per year to the pharmaceutical companies (p61).

Another example is the situation where the federal reserve lends unlimited amounts of money to banks at near zero interest rates and then lets them loan back that money to government at much higher interest rates. It is simply giving them a hidden gift of billions and billions of dollars (p61).

Many countries, including the United States, controrl vast amounts of resources like oil, gas and mining concessions. If the government grants you the right to extract these resources for free, it doesn't take a genius to make a fortune (p61).

If the value of oil under a particular piece of land is worth 100 million after extraction costs, and the government requires a payment of only 50 million, the government has, in effect, given away 50 million. It doesn't have to be this way but powerful interests ensure that it is (p62).

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Sometimes the government rewrites the rules to boost profits of a corporation. The firms demanding protection from foreign competition always provide a rationale, suggesting that society as a whole is the beneficiary and that any beneifts that accrue to the companies themselves are incidental (p63).

The position of distortionary subsidies stems from a single source: politics. Those in large corporations seem to be better at managing politics than at innovation (p63). As noted, the corporations always argue that the true benefits of any largesse they recieive lie elsewhere, but for the most part, this is not the case (p63).

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Markets and Inequality

Other advanced industrial countries with similar technology and per capita income differ greatly from the United States in inequality (p65). Market forces are real but they are shaped by political processes (p66).

Societal norms and social institutions also shape market forces. Indeed, politics, to a large extent reflects and amplifies societal norms. But these societal norms and institutions, like markets, don't exist in a vaccum; they are shaped by the 1 percent (p66).

The Laws of Supply and Demand

Over some twenty years millions of jobs were destroyed in manufacturing, the very sector that helped create a broad middle class after the second world war. Manufacturing workers went from being skilled workers in manufacturing to unskilled workers in some other sector of the economy (p67).

As the displaced manufacturing workers fought for jobs elsewhere, wages in other sectors suffered. With wages so low it is not surprising that those at the top, who take the lions share of the profits, are doing so well (p68). Innovations or investments, such as investments in robots, weaken the demand for unskilled labor and lower unskilled wages (p68).

In the aftermath of World War II, large numbers of Americans received a higher education, thanks to the GI Bill. America enjoyed broadly shared prosperity, and in fact at times incomes at the bottom increased faster than those at the top (p69).

But then, U.S. educational attainment stopped improving relative to the rest of the world. In the past quarter century, technological advances, particularly in computerization, enabled machines to replace jobs that could be routinized (p69).

Jobs that could be routinized were sent abroad where labour that could handle the work cost a fraction of what it did in the United States. At first the balance of supply and demand kept wages in the middle rising, but those at the bottom stagnated or even fell. Over the past fifteen years wages in the middle have not fared well (p70).

The result has been a "polarization" of America's workforce. Low-paying jobs that cannot be easily computerized continue to grow and so have high paying jobs at the top. Steel factories produce the same amount of steel as they did seventy years ago but with one-sixth of the labour (p71).

As recently as 2007 the wages of an autoworker were around $28 an hour. Now under a two-tier wage system agreed with the United Automobile Workers Union, new hires can expect to earn only $15 an hour (p72). It was a public decision to allow public sector wages fall so low compared to the private sector.

The most important role of government however, is setting the rules of the game through laws that encourage or discourage unionization, corporate governance laws that determine the descretion of management, and competition laws that are supposed to limit the extent of monopoly rents (p72).

Globalization

Both trade globalization and capital market globalization have contributed to inequality but in different ways (p74). The efficiency gains from the free mobility of labour are much much larger than the efficiency gains from the free mobility of capital (p75).

But when financial markets talk about efficiency gains what they are really talking about is a set of rules that beneifts them and increases their advantage over workers (p75). The threat of capital outflow, should workers get too demanding about their rights, keeps workers' wages low (p75).

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There is also a broader race to the bottom, trying to ensure that business regulations are weak and taxes are low. The loss to the country from the crisis that resulted from inadequate regulation was orders of magnitued larger than the number of jobs in finance that were saved (p75).

The irony is that in the crises that finance brings about, workers and small businesses bear the brunt of the costs (p76). Crises are accompanied by high unemployment which drives down wages, so workers are hurt doubly (p76).

During a crisis, the IMF also demands the fire sale of assets and then the financiers swoop in to make a killing. Goldman Sachs was one of the winners in the 1997 East Asia crisis as it was in the 2008 crisis. When we wonder how finaciers do so well, part of the answer is simple: they help write the rules that allow them to do well, even in a crisis (p76).

The way globalization has been managed has led to still lower wages because worker' bargaining power has been eviscerated. Firms can simply tell worker that if they don't accept lower wages and worse working conditions, that the company will move elsewhere (p77).

Imagine for a moment what the world would be like if there was free mobility of labour but no mobility of capital. Countries would compete to attract workers. They would promise good schools and a good environment, as well as low taxes on workers. This could be financed by higher taxes on capital. But that's not the world we live in and partly because the 1 percent don't want it to be that way (p77).

Having succeeded in getting governments to set the rules of globalization in ways that enhance their bargaining power regarding labour, corporations can then work the political levers and demand lower taxation (p77).

Corporations don't argue for globalization saying that it will enrich them at the expense of the rest of the society. Rather, they make specious arguments about how all will benefit. Globalization, as it has been managed, typically increases the risks that countries face – from volatility of capital markets to that of commodity markets (p78).

A fully integrated global economy would entail all workers getting the same wage all over the world. America's unskilled workers would get the same wages as unskilled workers in China, which would mean a precipitous fall in wages for American workers (p79).

Not surprisingly, advocates of full liberalization don't advertise this outcome.But as globalization proceeds it will involve further downward pressure on wages. How then can globalization's advocates claim that everyone will be better off? The theory says that everyone *could* be better off. That the winners *could* compensate the losers. But it doesn't say they will, and they usually don't (p79).

In many countries, including the United States, globalization is almost surely contributing to more inequality. And while countries in East Asia benefited enormously from export-led growth, poor corn farmers in Mexico have seen their incomes decline as subsidized American corn drives down prices on world markets (p80).

Among the winners of globalization as it has been managed are people at the top in America and some European countries. Among the losers are those at the bottom and frequently those in the middle (p80).

Beyond Market Forces: Changes in our Society

The most obvious societal change in recent decades is the decline of unions, from 20.1 percent of workers in 1980 to 11.9 percent in 2010 (p81). This has created an imbalance in economic power and a political vaccum.

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Republicans at both the state and federal level have worked to weaken unions (p81). President Reagan's breaking of the air traffic controller's strike in 1981 represented a critical juncture in the breaking of the strength of unions (p81).

Strong worker protections lead to a higher quality workforce with workers who are more willing to invest in themselves and their jobs. It also makes for a more cohesive society and better workplaces (p81).

For more than three decades from 1949 – 1980 productivity and hourly wage compensation moved together. Suddenly, in 1980 they began to drift apart. During this period, managers seized a larger share of the "rents" associated with corporations (p82).

Social mores in the United States have changed which make large disparities in compensation more acceptable. Executives in the United States can enrich themselves at the expense of workers and shareholders more easily than executives in other countries (p82).

Before the mid 1970s there was a broad social consensus: executives were paid well but not fabulously so; the rents got divided largely between loyal workers and management. Shareholders never had much say. Over the years managers learned how to entrench and protect their interests (p83).

Gradually, beginning in the 1980s and 1990s, management realized that weaker unions meant that they could take a larger share of corporate rents for themselves with impunity. Overall, executive compensation in our deeply flawed system of corporate governance has led to grossly excessive executive compensation (p83).

Norms of what was fair changed too: executives thought little of taking a larger slice of the corporate pie awarding themselves large amounts even as they claimed they had to fire workers and reduce wages to keep the firm alive (p84).

Early in the Great Recession, an Obama administration official could say, with a straight face, that it was necessary to honour AIG bonuses because of the sancity of contracts. Minutes later he could admonish autoworkers to take a revision of their contract that would lower their compensation enormously (p84).

The 1 percent didn't and still don't want reforms in corporate governance, even if they would make the economy more efficient (p84).

It used to be that in the event of recession, employers wanting to maintain the loyalty of their workers and concerned about their wellbeing would keep as many as possible on the payroll. Productivity went down and wages went up, and profits bore the brunt of the downturn. Now, firms pride themselves on their ruthlessness, cuttiong out so many workers that productivity actually increases (p85).

Discrimination is another major societal force affecting inequality. There is economic discrimination against major groups in American society – against women, against African Americans, against Hispanics. The differences in income and wealth across these groups is clear. Wages of women, African Americans, and Hispanics are all markedly lower than that of white males (p85).

Game theoretic models have shown how tacit collusive behaviour of a dominant group (white men) can be used to suppress the economic interests of another group. Individuals who break with the discriminatory behaviour will be punished: others will refused to buy from their store, work for them, supply them inputs. ostracism can also be effective. Those who don't punish the transgressors are subjected to the same punishment (p86).

Recently, economists have suggested another form of discriminatory behavior – "implicit discrimination", which is outside the awareness of the individual. Psychologists have learned to measure implicit attitudes. There is preliminary evidence that these attitudes predict discriminatory behavour better than explicit attitudes, especially in the presence of time pressure (p87).

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A white man with a criminal past is slightly more likely to be considered for a job than a black man with no criminal past. Roughly one in three black men will spend time in prison in his lifetime. Life expectancy at birth for blacks in 2009 was 74.3 compared with 78.6 for whites (p87).

The Great Recession has not been good for groups whose members have been traditionally discriminated against in the past. Banks saw them as easy targets because they had aspirations of upward mobility. Today, large fractions of these populations have lost not only their homes but their life savings (p88).

In the aftermath of the crisis, the typical black household had a net worth of $5677 a twentieth of that of a typical white household. Our economic system rewards profits no matter how they are made so it is not surprising to see moral scruples put to one side (p88).

In December 2011, Bank of America agreed a $335 million settlement for its discriminator practices against African Americans and Hispanics. Wells Fargo paid the fed $85 million for the same. In short, discrimination in lending is not an isolated instance, but a pervasive practice (p88).

Lending and housing discrimination has thus lowered the standard of living of African Americans, compounding the effects of labour market discrimination (p89).

Just as markets started delivering more unequal outcomes, tax policy asked less of the top. The top marginal tax rate was lowered from 70 percent under Carter to 28 percent under Reagan. It went up to 39.6 percent under Clinton and then down again to 35% under Bush (p89).

The reduction was supposed to lead to more work and savings, but it didn't. In fact, Reagan had promised that the incentive effects of his tax cuts would be so powerful that tax revenues would increase. And yet, the only thing that increased was the deficit (p89).

George W. Bush's tax cuts weren't any more successful: savings did not increase, in fact the household savings rate fell to a record low, essentially zero (p89).

It doesn't make any sense that the speculators should be taxed at a lower rate than people who work hard for a living, yet that's what our tax system does (p90).

Capital gains tax is in effect giving a tax break to the very rich (p90). The net effect is that the super rich pay a lower rate of tax than those less well-off; and their lower tax rate means that their riches increase faster (p91).

The ability of one generation to pass on its wealth to another more easily tilts the balance of life chances. Special provisions and loopholes have evicerated tax to such a degree that it has gone from providing 30% of federal revenues in the 1950s to less than 9% today (p92).

Some corporations make such extensive use of these provisions that they don't pay any taxes (p91). While a great deal for a firm if it invests in a low tax jurisdiction like Ireland, it has the perverse effect of encouraging reinvestment abroad – creating jobs outside the United States but not in it (p92).

Expenditure programs can play a very important role in ensuring that the poor don't get poorer. Social security has eliminated poverty among the elderly but we created for the banks a much stronger safety net than we did for poor Americans. And as market-generated inequality has increased, our government has done less and less (p93).

The United States has become a society in which there is less equality of opportunity, less than it was in the past and less than other countries, including old Europe (p94). A college education is becoming more expensive, especially as states cut back on support (p94).

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Access to the best colleges depends on going to the best high schools, grade schools and kindergartens. The 99% can't afford private primary and secondary schools and they can't afford to live in the rich suburbs that provide high quality public education (p94).

Many of the 99% used to live in close proximity to the rich because they provided services to them. This led to public schools with students from diverse social and economic backgrounds. That is changing as fewer of the 99% are living in proximity to the rich and fewer rich are living in proximity to the 99% (p94).

U.S. neighbourhoods are even segregated between homeowners and renters. But homeownership – a major way in the United States that households access better neighbourhoods and also accumulate wealth is not sustainable for households with no wealth to start with and little income (p95).

Firms are exploiting the young by offering low paid or unpaid internships, which adds an important element to a resume. But not only are the rich in a better position to get the internship; they are in a better position to afford unpaid work for a year or two (p96).

Going forward, current inequalities are likely to be exacerbated. We can anticipate in the future more in equality in human capital and financial capital (p96).

The Big Picture

As the wealthy get wealthier they have more to lose from attempts to restrict rent-seeking and redistribute income in order to make a fairer economy. And they have more resources with which to resist such attempts (p96).

More egalitarian societies worker harder to preserve their social cohesion; in the more unequal societies, government policies and other institutions tend to foster the persistence of inequality. This pattern has been well documented (p97).

We noted that those at the top often seek to justify their income and wealth as "marginal productivity theory" – the notion that tthose who get more do so because they make a greater contribution to society (p97).

Those who perfected the new skills of predatory lending, who helped create derivatives, described by billionaire Warren Buffet as "financial weapons of mass destruction" walked away with millions, sometimes hundreds of millions of dollars (p97).

But even before that it was clear that the link betweeen pay and societal contribution was, at best, weak. One can't really separate out any individual's contribution from those of others. Today, at least in many critical sectors a large fraction of all advances depend on basic research done by government (p98).

If much of what we have comes to us as the free gift from generations of historical contribution, there is a profound question as to how much can be said to be 'earned' by anyone now or in the future. Another argument is often proffered by those who defend the status quo: that we need to the current levels of high inequality as incentives for people to work, save and invest (p98).

First, most people do not argue for full equality, that would weaken incentives. The question is how seriously would incentives be weakened if we had a little less inequality? Of course, much of what is called "incentive pay" isn't really that.

In the aftermath of the 2008 debacle the banks were so embarrassed about calling what they pay their executives "performance bonuses" that they felt compelled to change the name to "retention bonuses", even if they only thing being retained was bad performance (p99). The effect was that pay was high when performance was good and pay was high when performance was bad (p99).

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Economists are prone to quibble about the relative importance of the various factors leading to America's growing inequality. The explanation for the increase in dispersion of wages and salaries has been particularly contentious (p99).

The threat of jobs moving elsewhere has been an important factor in the weakening of unions. But much of the debate is beside the point. The point is that inequality has grown in America and other countries around the world to an extent that it can no longer be ignored (p100).

Greed may be an inherant part of human nature but that doesn't mean there is nothing we can do to temper the consequences of unscrupulous bankers who would exploit the 99% and engage in anticompetitive practices (p100).

We can and should regulate banks, forbid predatory lending, make them accountable for their fraudulent practices, and punish them for abuse of monopoly power (p100). Countries with larger financial sectors have more inequality and the link is not an accident (p101).

We don't have to know precisely the fraction of inequality that should be attributed to the increased financialization of the economy to understand that a change in policies is needed (p101).

The achievement model of income determination focuses on the efforts of each individual. But if inequality was the result of differences in effort it would be hard to fault it, and it would seem unjust and inefficient not to reward it (p102).

As we have noted, the main determinant of an individuals success are his initial conditions – the income and education of his parents. Luck also plays an important role (p102). Inequality is the result of government policies that shape and direct technology and markets, and broader societal forces (p102).

There is in this a note of hope and despair; hope because it means that this inequality is not inevitable, and that by changing policies we can achieve a more efficient and more egalitarian society; despair because the political processes that shape these policies are so hard to change (p102).

Bubbles give a few of the 99 percent an illusion of wealth, but only for a moment. When the bubbles burst they wipe out the wealth, creating new levels of wealth inequality and heightened fragility for the 99 percent (p103).

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Why it Matters

The American economy has not been delivering for most citizens for years even though with the exception of 2009 GDP per capita has been increasing.The reason is simple: growing inequality, an increasing gap between the top and the rest (p104).

But the rich do not exist in a vaccum. They need a functioning society around them to sustain their position and to produce income from their assets. The experience of Latin America, the region of the world with the most inequality, foreshadows what lies ahead (p105).

Many of these countries were mired in civil conflict for decades, suffered high levels of criminality and social instability. Social cohesion simply did not exist (p105).

Instability and Output

The average American's spending is limited, or at least it would be in the absence of an artificial prop, which in the years preceding the crisis came in the form of a housing bubble fueled by Fed policies. Moving money from the 99 percent to the top lowers consumption because higher-income individuals consume less of their income than do lower-income individuals (p106).

Total demand in the economy is less than what the economy is capable of supplying and that means there is unemployment. In some sense the entire shortfall in aggregate demand today can be blamed on extremes in inequality (p107).

A broader distribution of income would bring the unemployment rate down to about 5 or 6 percent. Governments have understood that when there is a shortfall in demand – when unemployment is high – they need to take action to increase either public or private spending (p107).

The 1 percent work hard to restrain government spending. Private consumption is encouraged through tax cuts and that was the strategy undertaken by President Bush with three large tax cuts in eight years. It didn't work (p108).

Incentive pay gave CEOs incentives to distort their accounting, to show profits that were far larger than they actually were. The government could have reined this in by regulating the banks, by restricting incentive pay and by enforcing better accounting standards. But the CEOs did not want the government to intervene (p109).

They also believed, correctly, that someone else would clean up the mess. The irrational investment demand during the tech bubble helpeed to offset the otherwise weak demand created by high inequality, making the Bill Clinton era one of *seeming* prosperty (p109).

Much of the tax cuts benefited the very rich: a cut in the rate on dividends which was reduced from 35 percent to 15 percent, a further cut in capital gains tax rates from 20 percent to 15 percent, and a gradual elimination of estate tax (p110).

Investment outside real estate actually fell contrary to what many on the right had predicted. Strikingly, the Fed and its chairman at the time, Alan Greenspan didn't learn the lessons of the tech bubble. But this was part of the politics of inequality, which didn't allow alternative strategies to be considered, such as a tax cut for the 99 percent or increased spending on badly needed infrastructure (p110).

The Right wants a smaller government – one too weak to engage in progressive taxation or redistributive policies. The housing bubble induced spending not just by a few technology companies but by tens of millions of households that thought they were richer than they were (p111).

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In one year alone, close to a trillion dollars were taken out in home equity loans and mortgages, much of it spent on consumption. But the bubble left in its wake tens of millions of households on the brink of financial ruin (p111).

Before the debacle is over, millions of Americans will lose their homes and millions more will face a lifetime of financial struggle. At least the tech bubble left something useful in its wake – fibre optic networks and new technology that could provide sources of strength for the economy (p111).

The housing bubble left shoddily built houses located in the wrong places, and inapprorpriate to the needs of a country where most people's economic position was in decline (p111). In a democracy where there are high levels of inequality, politics can be unbalanced too, and the combination of an unbalanced politics managing an unbalanced economy can be lethal (p112).

Deregulation has played a central part in the instability that we, and many other countries are experiencing. The financial sector used its political weight and power to shape ideas, to push deregulation, first in airlines and other areas of transportation, then in telecoms, and finally, and most dangerously, in finance (p112).

Regulations are the rules of the game that are designed to make our system work better – to ensure competition, to prevent abuses, to protect those who cannot protect themselves. Without restraints, market failures are rampant (p112).

Those in the business sector see things differently; without restraints, they see increases in profits. They think not of the broad, and often long-term, social and economic consequences, but of their narrower, short-term interests, the profits that they may garner now (p112).

The innovations in technology, finance and economics offer ways to circumvent regulations that the regulators don't fully understand (p113). The sheer waste of resources brought on by the crisis caused by the private sector is greater than the waste of any democractic government, ever (p113).

There are further adverse effects of this instability: it increases risk. Firms are risk averse, which means they demand compensation for bearing the risk. Without compensation, firms will invest less, so there will be less growth (p114).

In the wake of the 2008 global financial crisis , there is now an increasing global consensus that inequality leads to instability, and that instability contributes to inequality (p114).

High Inequality Makes for a Less Efficient and Productive Economy

The current economic mantra stresses the role of the private sector as the engine of economic growth. It's easy to see why: when we think of innovation we think of Apple, Facebook, Google, and a host of other companies that have changed out lives (p115).

But behind the scenes lies the public sector: the success of these firms, and indeed the viablility of our entire economy, depends heavily on a well-performing public sector. There are creative entrepreneurs all over the world. What makes a difference – whether they are able to bring their ideas to fruition and products to the market – is government (p115).

For one thing, the government sets the basic rules of the game. It enforces laws. More generally it provides the soft and hard infrastructure that enables a society, and an economy, to function. If the government doesn't provide roads, ports, education or basic research, or at least provides the conditions under which someone else could, then ordinary business cannot flourish (p115).

Economists call such investments "public goods" a technical term for the fact that everyone can enjoy the benefits of, say, basic knowledge. Today, government-sponsored research hs promote the information technology revolution and advances in biotechnology (p115).

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For several decades America has suffered from underinvestment in infrasctructure, basic research, and education at all levels. Applied innovations depend on basic research and we simply haven't been doing enough of it (p116).

Our failure to make these critical public investments is the end result of a lopsided wealth distribution in society. The more divided a society becomes in terms of wealth, the more reluctant the wealthy are to spend money on common needs (p116).

The rich don't need to rely on government for parks and education or medical care or personal security. They can buy all these things for themselves. In the process, they become more distant from ordinary people (p116).

While the wealthiest Americans complain about the kind of government we have in America,in truth many like it just fine: to gridlocked to redistribute, too divided to do anything but lower taxes (p116).

Whenever we diminish equality of opportunity we are not using one of our most valuable assets – our people – in the most productive way possible (p116). Parental income is becoming increasingly important as college tuition increases far faster than incomes, especially public colleges which educate 70 percent of Americans (p117).

It is totally understandable that a young person, seeing how the burden of debt is crushing his parents' lives would be reluctant to take on student loans. It is in fact remarkable that so many are willing to do so to the point that the average college debt is now £26,000 (p117).

Households have to make compromises and among them is less investment in their children, although they wouldn't use those words (p118).

There are more than 3,100 lobbyists working for the health industry – nearly 6 for every congressperson and 2,100 lobbyists working for the energy and natural resource industries. All told, more than $3.2 billion was spent on lobbying in 2011 alone. The main distortion is to our political system, the main loser – our democracy (p118).

Individuals and corporations that excel at rent seeking are amply rewarded. They may garner immense profits for their firms, but this does not mean that their social contribution is even positive. In a rent-seeking economy private and social returns are badly misaligned (p120).

That something was wrong should have been evident: the financial sector is supposed to serve the rest of the economy, not the other way around. Some of our brightest young people always went into business but in the years before the crisis an increasingly large fraction of the country's best minds chose finance (p120).

With so many talented young people in finance, it is not surprising that there would be innovation in that sector (p120).

Drug prices are so much higher than the cost of production that it pays drug companies to spend more on marketing than they do on research. And much of so-called research is itself rent seeking - producing a me-too drug that will divide the high profits of a rival firm's blockbuster drug (p121).

Economists marvel at our health sector and its ability to deliver less for more. Health outcomes are worse in the United States than in almost all other advanced industrial countries, and yet the United States spends absolutely more per capital, and more as a percentage of GDP, but a considerable amount (p121).

While there are many reason for this disparity in efficiency of the health care system, rent seeking, in particular on the part of the health insurance companies and drug companies plays a significant role.

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We see evidence of rent seeking in the high expenditures to recruit credit card and cell phone customers.Here, the object becomes to exploit customers as much and as fast as possible, with fees and charges that are neither understandable nor predictable (p122).

Companies work hard to make it difficult to compare using say one credit card versus another because to do so would increase competition, and competition would erode profits (p123).

When GDP arises from taking resources out of the ground we should make a note that the country's wealth is diminished, unless that wealth is reinvested above ground in human or physical capital (p123).

When the oil industry pushes for more offshore drilling and simultaneously for laws that free companies from the full consequences of an oil spill, the company is, in effect, asking for a public subsidy. One objective of rent seekers is to shape laws and regulations to their benefit (p124).

It can be said that America has a government of the 1 percent, by the 1 percent, and for the 1 percent but it can be said with even more conviction about lawyers (p124). The macroeconomic effect of America's litigious society was suggested by some studies that showed that countries with fewer lawyers relative to their population grew faster (p125).

We maintain a very expensive system of ex post accountability, which to a large extent relies on penalties for those that do injury say, to the environment, after the fact rather than restricting action before the damage is done (p126).

More persuasive as an explanation of the Iraq War than Bush's avowed determination to eliminate one dictator was the attraction of Iraqi oil and perhaps the huge profits that would accrue to Bush devotees, including Vice President Richard Cheney's Haliburton corporation (p126).

Members of the top 1 percent rarely serve in the military – the reality is that the all-volunteer army does not pay enough to attract their sons and daughters. Foreign policy is, by definition, about balancing national interests and national resources. But for U.S. contractors, the military provided a bonanza beyond imagination (p127).

The widespread acceptance of the level of inequality, despite encouraging signs from the Occupy Wall Street Movement, makes it difficult in the United States to adopt good policies (p127).

Efficiency Wage Theory argues that how firms treat their workers, including how they pay them, affects productivity. Alfred Marshall, nearly a century ago, wrote that “highly paid labor is generally efficient and therefore not dear labor” (p128).

Education scholars have shown that hunger and inadequate nutrition impede learning. That's why school lunch programs are so important. With one of seven Americans facing food insecurity, many poor American children also face impaired learning (p128).

The more energy that is focused on anxieties, the less energy there is for productivity in the workplace. Living under scarcity often leads to choices that exacerbate the conditions of scarcity (p128). Results of a very simple survey illustrate the cognitive resources that the poor expend for every day survival and that the better-off do not (p129).

In the survey, individuals who have just exited a grocery store are asked what they had spent in total at the store and what the price of a few items in their shopping bags were. The poor typically could answer these questions precisely, whereas the non-poor did not know. An individuals cognitive resources are limited. When the limited stock of cognitive resourses is depleted this can lead people to make irrational decisions (p129).

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Equally important in motivating workers is their sense that they are being treated fairly. When executives aregue that wwages have to be reduced or that thee have to be layoffs in order for corporations to compete, but simultaneously increase their own pay, workers rightly consider that what is going on is unfair (p129).

Another experiment showed that raising workers wages who felt they were being treated unfairly had a substantial effect on productivity – and no effect on those who felt they were being treated fairly (p130).

Trickle-down economics may be a chimera, but trickle-down behaviorism is very real. People below the top 1 percent increasingly aspire to imitate those above them. What matters for an individual's sense of well-being is not just an individual's absolute income, but his income relative to that of others (p131).

The problem of "keeping up with the Joneses" helps explain why so many Americans live beyond their means, and why so many work so hard for so long (p131). In Europe, people like to have a balance between free time and goods. In America people work longer to have more goods (p132).

It may be that we are working more to maintain our consumption relative to others, and that this is a rat race, which is individually rational but futile in the goal it sets for itself. Individuals say they are working so hard for the family, but as they work so hard there is less and less time for the family. Family life deteriorates and somehow the means prove inconsistent with the stated end (p132).

In the view of the Right, the price we have to pay for more equality in America is just too great. The Right underestimates the need for public action to correct pervasive market failures. It overestimates the importance of financial incentives. And, as a result of these mistakes, the Right overestimates the costs and underestimates the benefits of progressive taxation (p133).

Those who receive the most rewards are not necessarily those who have made the greatest contribution to society. In those instances where private rewards of those at the top exceed by a considerable amount their marginal social contributon, redistribution could both reduce inequality and increase efficiency (p134).

Individuals do not have easy access to capital and cannot divest themselves of risk. In a world in which households have little or no wealth, and in which only limited educational opportunity is provided by the government, there is underinvestment in human capital (p135).

Without a good public education system, parental wealth is the primary determinant of that of their children. Providing better social protection can help create a more dynamic economy (p135).

The Right, like many economists, tends to overestimate the benefits and underestimate the costs of incentive pay (p135). It is a great leap from the power of monetary incentives to focus minds on a great quest to the idea that monetary incentives are the key to high performance in general (p136).

The absurdity of incentive pay in some contexts is made clear by thinking of how it might apply to medical doctors. Is it conceivable that a doctor performing heart surgery would exert more effort if his pay depended on whether the patient survived the surgery? Doctors work to make sure that each surgery is their absolute best for reasons that have little to do with money (p136).

Interestingly, in some areas we recognize the dangers of incentive pay: expert witnesses in litigation are not allowed to be paid contingent on the outcome of the case (p136). It is assumed especially for higher level jobs that employees will do their best and not hold back, even in the absence of incentive pay (p137).

Incentive pay, especially as it was implemented in the banking sector illustates how distorting such compensation can be: the bankers had an incentive to engage in excessive risk-taking, short-sighted behavour and deceptive, and non-transparent accounting (p137).

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Stock options also encouraged dishonest accounting that made it seem that the company was doing well, so the stock price would go up (p137). Indeed, if one were really interested in incentives and not in deception, one would have designed a quite different compensation system (p138). A good incentive system might base performance on how the company performs relative to others in the industry, but few firms do this (p139).

The lack of well designed compensation schemes reflects another market failure – providing the scope for executives to do what is in their interests – including adoptiong compensation systems that encrich themselves – rather than in the interests of society, or even of shareholders (p139).

Psychologists, labour economists, and other social scientiss have studied closely what motivates people, and it appears that economists have gotten it all wrong. The scientists whose research and ideas have transformed our lives in the past two hundred years have, for the most part, not been motivated by the pursuit of wealth. This is fortunate, for if they had, they would have become bankers not scientists (p139).

In some circumstances a focus on money can actually diminish effort. It is almost insulting to assume that teachers are not doing what they can to help students learn, and that by paying them an extra $500 or $1500 they would exert greater effort. Of course, if teachers perceive themselves to be badly paid that will undermine morale, and that will have adverse incentive effects (p140).

An often told story provides another example. a cooperative day center had a problem with certain parents picking up their children in a timely way. It decided to impose a charge. But charging a fee converted a social obligation into a monetary transaction. Parents no longer felt a social responsibility, bu assessed whether the benefits of being late were greater or less than the fine. Lateness increased (p140).

Most employers recognise that teamwork is absolutely essential for the success of a company. The problem is that individual incentive schemes can undermine this kind of teamwork. The reason that economic theory failed to guage accuratley the effectiveness of team incentives is that it underestimated the importance of personal connectiveness (p141).

Economists overestimate too the selfishness of individuals, though there is considerable evidence that economists are more selfish than others, and that economics training does make individuals more selfish over time (p141).

It is thus not suprising that firms owned by their workers – and who therefore share in the profits – have performed better in the crisis and laid off fewer employees. Economists reckon that human emotions such as envy, jealousy, or a sense of fair play do not exist, of if they do, have no role in economic behavior, and if they do exist then they shouldn't. To noneconomists, this approach seems nonsensical (p141).

In short, contrary to the assertion of the Right, that incentive pay is necessary to the country maintaining its high level of productivity, the kinds of incentive schemes employed by many corportations are actually counterproductive (p142).

We noted that President Reagan claimed that by making the tax system less progressive – lowering taxes at the top – one would actually raise more money, because savings and work would increase. He was wrong: tax revenues fell significantly. President Bush's tax cuts fared no better, they like those of Reagan, simply increased the deficit (p142).

President Clinton raised taxes at the top and America experienced a period of rapid growth and a slight diminution of inequality. University of California professor Emmanuels Aaez, Thomas Piketty of the Paris School of Economics, and Stefanie Stantchaeva of the MIT department of Economics estimate that he rate of tax at the top should be around 70 percent – what it was before President Reagan started his campaign for the rich (p143).

The sense that are political and economic system is unfair undermines trust, which is essential for the functioning of our society. A more progressive tax system might contribute a little to a restoration of confidence that our system is, after all, fair. That could have enormous societal benefits, including to our economy (p143).

The fact that tax cuts for the rich have increased the deficit and the national debt substantially has another effect. It has created pressure to reduce government support for investments in education, technology and infrastructure (p144).

Such public investments can be financided sustainably only through taxation, and given the level of inequality what is required is a well-designed progressive taxation that can be less distortionary than regressive taxation (p144).

A corporate CEO will not exert less effort to make the company work well simply because his take home pay is $10 million a year rather than $12 million a year (p144). Paul Ryan once said "Let's not focus on redistribution, let's focus on upward mobility" (p145).

There are two factual problems with this perspective. First, it suggests that while we are failing in equality of outcomes, we are succeeding in eqaulity of opportunity. This is not true. The second is the claim that the progressive perspective argues for equality of outcome. This is not true either. Progressives argue for skyrocketing inequality of income, just ever so slightly ameliorated by government (p146).

What's worrying is that those in the 1 percent, in attemptiong to claim for themselves an unjust proportion of the benefits of this system, may be willing to destroy the system itself to hold on to what they have (p146).

Of all the costs imposed on our society by the top 1 percent, perhaps the greatest is this: the erosion of our sense of identity in which fair play, equality of opportunity, and a sense of community are so important (p146).

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A Democracy in Peril

Politics is the battleground for fights over how to divide a nation's economic pie. It is a battle that the 1 percent have been winning. That isn't how it's supposed to be in a democracy. In a system of one person one vote 100 percent of the people are supposed to count (p148).

Polls consistently show that there are large discepencies between what most voters want and what the political system delivers. Why hasn't the middle had the politicial influence that standard theory predicts it would have, and why does our current system seem to operate on "one dollar" one vote instead of one person one vote? (p149)

At least part of the reason is that the rules of the political game, too, are shaped by the 1 percent (p149).

Undermining Democratic Political Processes

Very few elections actually turn on the vote of one individual. Modern political and economic theories assume rational self-interested actors. On that basis, why anyone votes is a mystery (p150).When the social contract is abrogated, when trust between and its citizens fails, disillusionment, disengagement or worse follows (p150).

The irony is that the wealthy who seek to manipulate the political process for their own ends welcome such an outcome. So, if the political system works systematically in favour of those at the top, it is they who, disproportionately, are induced to engage in politics, and inevitably the system serves best those whose voices are heard (p150).

For those with money, spending it to shape the political process is not a matter of civic virtue; it is an investments, from which they demand, and get, a return.

Government is the formal institution through which we act together. But it's easier to act together if the interests and persepectives of the members of a group are at least loosely aligned. But it is evident that the 1 percent and the rest are not in the same boat (p152).

Cooperation and trust are important in every sphere of society. The legal system enforces certain aspects of good behaviour but most good behavior is voluntary. Our system couldn't function otherwise (p152).

Throughout history the economies that have flourished are those where a man's word is his honor, where a handshake is a deal. An economy with more social capital is more productive, just like one with more human or physical capital (p153).

But the idea of trust underlies all notions of social capital, people can feel confident that they will be treated well with dignity fairly. And they reciprocate. If individuals believe that the economic and political system is unfair, the glue of social capital doesn't work and societies don't function well (p154).

In the aftermath of the breakdown of the Soviet Union, Russia experienced a marked decline in output. This puzzled most economists. Eliminating the old distortionary centralized ploanning system and replacing it with a market economy should have meant that those resources would, at last, be more efficiently used (p154).

But what the analysis failed to incorporate was how seventy-four years of Communist Party rule, along witht the suppression of civil society institutions, had eroded social capital. The only thing that held the country together was a central planning system and an oppressive dicatorship (p154).

Russia became the Wild East more lawless than American's wild west before it was tamed. Russia was caught up in a systemic vaccum with niether plan nor the market (p154).
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In America there has been an enormous erosion of trust in recent years. Within the economy the banking sector has been at the forefront of the trend. An entire industry that was once based on trust has lost it (p155).

Shortsighted financial markets, focusing on quarterly retutns, have also been central to undermining trust in the workplace. In old economics, most firms held onto their good workers through ups and downs of the business cycle and those workers returned the favour with loyalty and investment in human capital in the firm, to increase the firm's productivity (p156).

This was called "labour hoarding" and it made good economic sense. But as markets became more shortsighted such humane policies no longer seemed profitable. The importance of a sense of wellbeing in the workplace should not be underestmated: most people spend a substantial fraction of their lifetime in the workplace, and what happens there spills over strongly into the rest of their lives (p156).

Governments and societies make decisions – expressed throgh policies, laws and budgetary choices – that either strengthen the social contract or weaken it (p157). If individuals believe that their employer is treating them unfairly, they are more likely to shirk on the job (p159).

America's economic system is no longer fair. Equality of opoortunity is just a myth; and Americans are gradually realizing this. One poll showed that 61 percent of Americans now believe that our economic system favours the wealthy. Only 36 percent of Americans think that our system is generally fair (p159).

In most people's ideal dsitribution, the top 40 percent has less wealth than the top 20 percent currently have. Equally striking, when asked to choose betweeen two distributions shown an a pie chart, participants overwhelmingly chose one that reflected the distribution in Sweden over that in the United States – 92 percent to 8 percent (p160).

Views that our political system is rigged are even stronger than those that our economic system is unfair. The poor especially, believe that their voice is not being heard. The widespread support expressed for the Occupy Wall Street movement bears testimony to these concerns (p160).

While the most immediate symptom is disillusionment leading to a lack of particpation in the political process, there is always a worry that voters will be attracted to populists and extremists who attack the establishment that has created this unfair system and who make unrealistic promises of change (p160).

A basic insight of economics is that private markets, on their own, spend too little on public goods. Ensuring that we have a sell-informed public citizenry is important for a well-functioning democracy, and that in turn requires and active and diverse media (p161).

The media are a realm in which those in the 1 percent have the upper hand. They have the resources to buy and control critical media outlets, and some of them are willing to do so at a loss: it's an investment in maintaining their economic position (p161).

The political battle is also fought over not allowing those who disagree with you to vote. The elites fear that they would lose their position of power and privilege, and even their wealth, if they extended the votiting franchise (p162).

Economists and statisticians distinguish two kinds of errors: someone who is qualified to vote not being allowed to vote, and somnone who is not qualified to vote being allowed to vote. Requiring a government-issued photo ID discriminates between those who have sufficient means, time , and acess to informaton to get to the Department of Motor Vehicles, and those who do not (p163).

Obtaining voter identification may also necessitate having a birth certificate or other documentation, which requires even more time, money and knowledge of bureaucracy. These measures will chip away at voter participation, even thoth they do not present absolute barriers to registering or voting (p164).

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The 2010 decision in the case of Citizens United in the Supreme Court essentially approved unbridled corporate campaign spending represented a milestone in the disempowerment of ordinary Americans. The decision has the potential to create a class of super-wealthy political campaigners with a one-dimensional political interest: enhancing their profits (p164).

But corporations aren't people, and they don't have inalienable rights. The Supreme Court, in giving them carte blanche to shape power and our political system, seemed to think otherwise (p165).

It is generally recognized that providing money conditional on a candidate's providing a favor is corruption. Corruption undermines faith in our democracy. There is a widespread understanding that the middle class is the backbone of our democracy. The poor are often so alienated that getting them to vote proves especially hard (p167).

The middle class is most likely to understand why voiting is so important in a democracy and why a fair rule of law is necessary for our economy and society. But the polarization of our labour market has been hollowing out the middle class, and the dwindling middle class is itself becoming disillusioned with a political process that is obviously not serving its members well (p167).

Attempts at disenfranchisement, a recognition that our political and economic systems are unfair, the knowledge that the flow of information is controlled by a media that is itself controlled by those at the top, and the apparent role of money in politics have all enhanced disillusionment with our political system (p168).

With such disillusionment it costs money to get out the vote – and efforts to get out the vote can be targeted at those whose interests coincide with the top. Disillusionment with our political system can give rise to agitation outside the political system, evidenced in the Occupy Wall Street momement (p169).

When this then leads to a reform of the political system, the effects can be positive. But when the political system rebuffs those reforms, it reinforces alienation. Most Americans now realize how essential it is that our political process be reformed in ways that make it more responsive to the wishes of the majority and that diminish the power of money (p169).

Changing the rules of the game can create a more democratic democracy. Even if Citizens United is not reversed, corporations should be allowed to make campaign contributions only if their owners – the shareholders – vote to do so (p170).

Moneyed interests have the incentives and resources to ensure that the system continues to serve those interests. The public owns the airwaves that the TV stations use. So rather than giving these away to TV stations without restriction – a blatant form of corporate welfare – we should sell access to them. And we could sell it with the condition that a certain amount of airtime be made available for campaign advertising (p170).

Another part of the puzzle is explained by the bias in perceptions and beliefs – that the top has persuaded those in the middle to see the world in a distored way, leading them to perceived policies that advance the interests of those at the top as consonant with their own interests (p172).

In the post-World War II era, countries turned over their economic sovereignty to the IMF – an agency that represents international creditors. There may be free elections, but as presented to the voters, there are no real choices in matters that they care most about – issues of economics (p174).

The markets are a fickle disciplinarian, giving an A rating one moment and turning around with an F rating the next. Even worse, the financial markets' interests frequently do not coincide with those of the country. The markets are shortsighted and have a political and economic agenda that seeks the advancement of the well-being of financiers rather than that of the country as a whole (p175).

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One cannot simultaneously have democracy, national self-determination, and full and unfettered globalization (p175). The American model is losing some of its lustre. It's not just that the American model of capitalism didn't provide sustained growth. It's more that others are beginning to realized that most citizens have not benefited from that growth, and such a model is not very politically attractive (p179).

And they are sensing too the corruption, American style, of our political system, rife with the influence of special interests (p179). There was just a shor period, between the fall of the Berlin wall and the collapse of Lehman Brothers, when the United States dominated in virtually every realm. Now the emerging markets are demanding a larger voice in international forums (p180).

America has been extraordinarily influentialin spreading ideas – of equality, of human rights, of democracy, of the market. But the extent to which the global economy and polity can be shaped in accord wit our values and interests will depend, to a large extent, on how well our economic and political system is performing for most citizens (p181).

an economic and political system that leaves most citizens behind, as ours has been doing, will not be seen as a system to be emulated, and the rules of the game that such a country advocates will be approached with jaundised eyes (p181).

The United States played a central role in creating the current rules of the game and the United States, still the world's largest economy, can use its economic power and influence to shape new rules that create a fairer global economy (p181).

So too, we can temper globalization; indeed, we must if we want to preserve our democracy, prevent our rampant inequality from growing worse, and maintaining our influence around the world (p182).

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1984 is Upon Us

It is a puzzle as to how the 1 percent could be so victorious in shpaing policies in its interests. But there is another way for moneyd interests to get what they want out of government: convince the 99 percent that they have shared interests (p183).

This strategy requires an impressive sleight of hand, in many respects the interests of the 1 percent and the 99 percent differ markedly. The fact that the 1 percent has so successfully shaped public perception testifies to the malleability of beliefs (p183).

When others engage in it we call it "brainwashing" or "propaganda". We look askance at these attemtps to shape public views, because they are often seen as unbalanced and manipulative, without realizing that there is something akin going on in democracies, too (p184).

What is different today is that we have far greater understanding of how to shpae perceptions and beliefs - thanks to the advances in research in the social sciences. Mainstream economics assumes that individuals have well-defined preferences and fully rational expectations and perceptions. Individuals know what they want (p184).

But in this respect, traditional economics is wrong. If it were true, there would be little scope for advertising. It is clear that many, if not most, Americans possess a limited understanding of the nature of the inequality in our society: They believe that there is less inequality than there is, they underestimate its adverse economic effects, they underestimate the ability of government to do anything about it, and they overestimate the costs of taking action (p184).

They even fail to understand what the government is doing – many who value highly government programs like Medicare don't realise that they are in the public sector. In a recent study respondents on average thought that the top fifth of the population had just short of 60 percent of the wealth, when in truth that group holds approximately 85 percent of the wealth (p184).

Only 42 percent of Americans believe that inequality has increased in the past ten years, when in fact the incrase has been tectonic. When inequality becomes as large as it is in the United States, it becomes less noticable – perhaps because people with different and wealth don't even mix (p185).

The 1 percent now has more knowledge about how to shape preferences and beliefs in ways that enable the wealthy to better advance their cause, and more tools and more resources to do so (p185).

Understanding how people actually behave is the subject of an important branch of economics called behavioural economics. The school holds that even if behavior is not consistent with the standard tenets of rationality, it still may be predictable. And if we understand what determines behaviour then we can shape it (p186).

This research has emphsized how much of ourperceptions are affected by "framing" – the context in which the analysis is posed. Police lineups are notorious: even if none of the accused could have been at the scene of the crime, eyewitnesses will identify one of them as the culprit, with conviction (p186).

One can manipulate frames and thus perceptions and behaviour. These frame and perceptions are self-reinforcing (p187). There is a second important proposition from psychological research: individuals process infomration that is consistent with prior beliefs differently fromhow they process information that is inconsistent (p188).

Information that is consistent is remembered, seen as relevant, and reinforces beliefs. Information that is inconsistent is more likely to be ignored, discounted, or forgotten. This distortion is called "confirmatory bias" (p188).

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Shaping behaviour is a central goal of marketing. Over the years, firms have worked hard to undestand what determines consumers' buying decisions; for if they understand that, they can induce people to buy more of their products. Thus, the major objective of advertising is not to convey information but to shape perceptions (p189).

Perceptions and beliefs are even more important in shaping collective behavior, including political decisions affecting economics (p191). Fairness, like beauty, is in the eyes of the beholder, and those at the top want to be sure that the inequality in the United States today is framed it ways that maket it seem fair (p192).

The Right emphasizes that the state interferes with the workings of the market. At the same time they exaggerate the failures of government and they exaggerate the strength of markets. Most importantly, they strive to make sure that hese perceptions become part of the common perspective (p192).

We haven't achieved the minimalist state that libertarians advocate. What we've achieved is a state too constrained to provide the public goods – investments in infrastructure, technology and education – that would make for a vibrant economy (p192).

The advocates of a smalll state in the financial sector were happy that the government had the money to rescue them in 2008 – and bailouts have in fact been part of capitalism for centuries.

Debates and perspectives on a range of issues have taken a different course in the United States in recent years than in much of the rest of the world. Two controversies – the death penalty, which is anathema in Europe and the right to access medicine, which in most countries is taken as a basic human right – are emblematic of these differences.

Social sciences like economics differ from the hard sciences in that beliefs affect reality: beliefs about how atoms behave don't affect how atoms actually behave, but beliefs about how the economic system functions affect how it actually functions (p190).

Markets can sometimes create their own reality. If there is a widespread belief that markets are efficient and that government regulations only interfere with efficiency, then it is more likely that government will strip away regulations, and this will affect how markets actually behave (p190).

If individuals from some minority are paid lower wages than other equally qualified individuals they will and should feel that they are being treated unfairly. but the lower productivity that results can, and likely will, lead employers to pay lower wages. This is called a "discriminatory equilibrium".

Even perceptions of race, caste and gender identities can have signficant effects on productivity. In a brilliant set of experiments in India, low- and high-caste children were asked to solve puzzles, with monetary rewards for success. When they were asked to do so annonymously there was no caste difference between the children (p191).

But when the low caset and high caste were in a mixed groiup where the low-caste individuals were known to be low caste – they knew it and they knew that others knew it, low-caste performance was much lower than that of the high caste. The experiment highlighted the importance of social perceptions - low-caste individuals somehow absorbed into their reality the belief that lower-caste individuals are inferior – but only in the presnece of those who held that belief (p191).

Some ideas are transformative, but for the most part societal change and change in beliefs occurs slowly. Change often occurs less rapidly than it seems that it should , and the slow evolution of ideas is one of the reaons that societies sometimes change slowly (p198).

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The Declaration of Independence may have enunciated clearly in 1776 the principle that all men are created equal, but it would take almost two centuries before the United States adopted civil rights legislation that would embrace this principle, and full equality has not yet been achieved (p198).

Most individuals themselves don't examine evidence. Few have the capabilities of assessing the evidence on global warming for eample even if they had the time. But the fact that others that they talk to and trust hold certain beliefs reinforces the ir conviction and their correctness (p198).

Societies can get "stuck" in a particular set of beliefs, with each individual's beliefs changing only if enough others' change; but those beliefs won't change, if those of the rest don't (p199).

The notion that ideas and perceptions are social constructs also helps explain how societal beliefs sometimes can change rather rapidly. If, somehow, enough people find the idea attactive, there may be a tipping point, it beocmes part of the new "social construction of reality", the new conventional wisdom (p199).

Today those who wish to perserve societies' inequalitites actively seek to shape perceptions and beliefs to make such inequalities more acceptable. They now know enough about how to manipulate ideas and preferences that they don't have to just hope and pray that the evolution of ideas works out in their favour (p200).

Part of the power of socially constructed categories depends on their not seeming to be socially constructed. There is considerable evidence that economists' perceptions say, about fairness, are markedly different from those of the rest of society (p201).

The Chicago economist Richard Thaler reports that while 82 percent of respondents in the general population believed it was unfair to increase the price of snow shovels after a storm, among his MBA students, only 24 percent held that view (p201).

It could be partly that economics attracts those who, among the population, put less weight on notions of fairness. But there is evidence as well that training in economics shapes perceptions – and given the role that economists havbe increaslingly had in public policy, their perceptions of what is fair may have had disproportionate consequences (p202).

The Right has recognised the importance of education in shaping perceptions, which is why it has been active in trying to influence the design of curricula in schools. It also embarked on an "educatoin" program to make judges more "economic literate", that is, to see the world through the narrow lens of conservative economics (p202).

For the most part, politicians don't originate ideas; rather, they take those emanating from academia and from public intellectuals, and from within governments and non-governmental organisations. But in America's moneyed politics, not all constituents are created equal. Politicians have an incentive to espouse ideas that serve the moneyed interests (p202).

In some other countries, politicians can be directly bought. But American politicians, for the most part, are not so crass. They don't accept stuffed brown envelopes. Money goes to their election campaigns and into the coffers of their party. This has come to be called "corruption American style" (p202).

There is a real battlefield of ideas. But it does not, for the most part involve a battle of ideas as academics would understand it, where evidence and theory on both sides are carefully weighed. It is a battlefield of "persuasions" of "framing" of attempts not necessarily to get tho the truth of the matter but to understand better how ordinary citizens' perceptions are formed and how to influence those perceptions (p204).

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In American parlance, socialism is akin to communism, and communism is the ideology we battled for sixty years, tiumphing only in 1989 with the fall of the Berlin Wall. Hence, labelling anyting as "socialism" is the kiss of death (p204).

Most of the elderly love Medicare. But many are so convinced that government can't provide services efficiently that they believe that Medicare must be private (p204). In the tumultuous discussion of health care reform during President Obama's first year in office, one man was heard to say "keep your government hands off my Medicare" (p204).

The Right attacks extending the Medicare program to the rest of the population as "socialism". That ends the debate, One doesn't have to discuss whether it's efficient or inefficient, whether the quality of care is good or bad, or whether there is choice or not (p204).

The Battle Over Policies as a Battle Over Perceptions

Estate Taxes: The Right has been able to persuade many Americans to suppport policies that are not in their self-interest. The estate tax, which is imposed on those who have large estate passed on to heirs, provides a quintessential example (p209).

Under current law, the tax is levied only on the amount passed on that is in excess of $5 million, or $10 million for a married couple, so that it is unlikely that most Americans would ever be touched by the tax, even with their overoptimistic view of mobility in American society (p209).

Yet, because of the concentration of wealth in our society, the tax can raise large amounts of money. Moreover, in theory a "fair" society would put everyone on a level playing field at the start. We know that that's impossible; but the tax is designed to limit the extent of "inherited" inequality (p209).

It should be obvious that he tax is in the interests of most Americans, and yet the Right has persuaded large numbers to opposed it – against their own interests (p209).

Bank Recapitalization: As the financial crisis unfolded, we saw how the banks managed perceptions. We were told that we had to save the banks to save the economy – to protect our jobs no matter how unsavory the bailouts felt at the time; that if we put conditions on the bans it would roil the markets, and we would be all the worse for it; and that we needed to save not only the banks but also the bankers, the bank's shareholders, and the bank's bondholders (p210).

Obama not only bought into this line; he let it an aura of authenticity by repeating it. But this line has no factual basis and was designed to make the world's most massive transfer of wealth acceptable: never in the history of the planet had so many given so much to so few who were so rich without asking anything in return (p210).

The question could have been framed very differently. I could have been argued that the real American way is the rule of law. The law was clear: if a bank can't pay what it owes and what depositors demand back, then it is restructured; shareholders lose everything. Bondholders are made the new shareholders. If there is still not enough money, the government steps in. Bondholders and unsecured creditors then lose everything, but insured depositors get back what they were promised (p211).

The bank is saved but the government as the new owner of the bank will eventually decide to wind it sown, preprivatize it , or merge it with a healthier bank. Rather, the Bush and Obama Administrations saved not only the banks – there was a rationale for doing that, but also the shareholders, bondholders and other unsecured creditors. This was a victory in the battle of perceptions (p211).

We could have saved the banking sector, protected depositors, and maintained a flow of credit, all at less cost to the government, by following the ordinary rules of capitalism. Put simply, the economy's interest could have been better protected and a sense of fairness in our system better preserved, if

Obama and Bush had played by the rules of ordinary capitalism, rathe than making up the rules as they went along (p211).

Money given to the banks that went to pay bonuses couldn't simultaneously be used to recapitalize the banks. But the bankers lost the long-run battle of perceptions: virtually everyone sees what was done as unfair – and unjustified even by the unusual economic circumstances.

Restructuring Mortgages: When the housing bubble burst, many homeowners found themselves "underwater": they owed more on their home than their home was worth. When foreclosure forces families out of their homes, everyone loses (p212).

The cost to the household, the disruption to their lives, the loss of their life savings is obvious. Worse still, an empty home, uncared for, decreases the value of neighbouring homes. More of them go underwater. Communities with large numbers of foreclosures inevitably suffer (p212).

Foreclosures beget foreclosures: by making more houses go underwater. The banks lose still more from the substantial legal fees that accompany each foreclosure. There are better ways of dealing with this unfortunate spiral: a write-down of the principal, perhaps with a debt-to-equity conversion that gives the lender a share in the capital gain when the house is sold (p213).

Homeowners still have an incentive to maintain their homes: houses aren't thrown onto the market, depressing housing prices; the costly foreclosure process is averted. Communities are protected. It's to everyone's advantage to give homeowners a fresh start (p213).

The Obama administration advanced two main arguments for not doing much for homeowners. First, it would be "unfair" to help those who were struggleing with their mortgages when thee were many good and responsible citizens who had worked hard to pay of their mortgage. Second, offering relief to homeowners would exacerbate the problem of moral hazard: if individuals were let off the hook, it would undermine incentives to repay (p214).

What was curious about these arguments was that they could have applied just as easily, and with greater force, to the banks. The banks had repeatedly been bailed out. The banks had proven the relevance of moral hazard – bank bailouts had repeatedly and predictably led to excessive risk taking by the banks – and yet both the Bush and Obama administrations ignored it and refused to discourage future bad behaviour (p214).

Unlike the banks, most of the people losing their homews were not repeat offenders. Yet they were asked to lose all of the equity that they had put into their home, while bank shareholders and bondholders got a massive gift (p214).

But the greatest irony was the claim that helping some poor homeowners and not helping others would be "unfair". Yet these inequities pale in comparison with those that arose from the hundreds of billions of dollars thrown at the financial sector (p215).

There were ways of helping homeowners that would not have cost society a dime and that would have left homeowners who had managed their debts prudently far better-off than those who hadn't; but the banks resisted any and all such proposals (p215).

The Battle Over the Big Ideas

The battle of perceptions rages most intensely in the field of big ideas. One such battle involves on one side those who believe that markets mostly work well on their own and that most market failures are in fact government failures. On the other side are those who are less sanguine about markets and who argue for an important role for government (p216).

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This is an ideological battle because economic science – both theory and history – provides a quite nuanced set of answers (p216). At the very least there is a need for government to enforce contracts and to provide the basic legal infrastructure (p217).

The Right wants the "right" rules of the game – those that advantage the wealthy at the expense of the rest. They've tried to shape the debate, to suggest that there is a single set of rules that would be best for all. But that's just not true (p217).

Externalities, for instance, are not limited to the environment. Our banks polluted the global economy with toxic mortgages, and their failures brought the global economy to the brink of ruin, imposing huge costs on workers and citizens throughout the world (p217).

Incentive pay that was supposed to align their interests didn't do so, the managers benefited, at the expense of everyone else (p217). If you listened only to arguments of the Right you would think that markets always worked and government always failed (p217).

They worked hard to create this perception within the public, most simply by ignoring private market failures and government successes. And they've tried to ignore - and get others to ignore – the distributive consequences of these market failures, who gains and who loses (p217). But in almost every case it is those at the top who are the winners, and the rest who are the losers (p218).

When the government undertakes research or supports new private sector ventures there should be some failures. A lack of failures means you are not taking enough risks. Success occurs when the returns from those projecs that succeed are more than enough to offset the loses on those that fail. And the evidence in the case of government research ventures is unambiguously and overwhelmingly that the returns from governement investments in technology on average have been very, very high – just think about the Internet, the Human Genome Project, Jet airplaanes, the browser and the telegraph.

Governments and markets can complement each other and provide a system of checks and balances. A government initiative created the Internet, but private-sector firms like Google built many of the products and applications that have placed it at the center of people's lives and our economy. Government may have created the first web browser, but the private-sector and opensource movement have refined it (p219).

That there are successes and failures in both the public and the private sector is clear. And yet many on the Right seem to think only the government can fail. Those who believe in markets discount information about market failure while assigning high saliency to examples of government failure (p219).

They can easily recall examples of failed government programs, but the massive failures of our financial system in the run-up to the Great Recession are quickly forgotten, described as an anomoly, or blamed on the government (p219).

The fact of the matter is that there has been no successful large economy in which the government has not played an important role, and in countries with the largest growth, such as China, and the highest standard of living, such as Scandanavia, the government plays a very important role (p219).

Yet the prevailing ideology on the right is to strong that there continues to be a push for a small government, for contracting out government services and privatization and even resistance to regulation (p219).

Beginning with President Reagan and continuing through President Clinton, government stepped back. The deregulation led to instabillity, with less oversight there was more fraud and less competition (p220).

Stiglitz, Joesph (2013). The Price of Inequality. Penguin Group, London.

Private health insurance companies are much less efficient than the government-run Medicare program. Private life insurance companies are much less efficient than the governments Social Security program. A recent study showed that on averagee, contractors "charged the federal government more than twice the amount it pays federal workers" for performing comparable services (p220).

As much as one in four dollars spent on contracting in Iraq and Afghanistan was wasted or misspent, according to the commission on Wartime Contracting in Iraq and Afghanistan. But this and other experiences suggest that it was not just ideology that drove the contracting/privatization agenda; but rent seeking.

The Right notes corruption in the public sector but seldom acknowledges that on the other side of every public-sector employee who takes a bribe is a briber, and that briber is typically a private party (p221). Even before the crisis it should have been obvious that privatization was a bad deal for most Americans (p222).

Private insurance companies have much higher transaction costs. In fact, that is the whole point of privatization: for the elderly transaction costs are a bad thing; but for the financial sector, they are a good thing. That's their income. That's what they live off. Their hope is to get a slice of the hundreds of billions of dollars that people put every year into their Social Security accounts (p222).

For those devoted to the ideology of the Right, these failures are a mystery. To those more apprised of the limitations of the market, they are predictable – and often predicted (p222). Opponents of regulation always complain that it's bad for business (p223).

Regulations that prevent pollution, of course, are bad for businesses that would otherwise have polluted. Regulations that prevent child labour are bad for businesses that would have exploited children. Regulations that prevent American companies from engaging in bribery or abuses of human rights may be bad for businesses that engge in bribery or human rights abuses (p223).

As we've seen, private rewards and social returns often differ, and when they do, markets don't work well. The task of the government is to align the two (p223). If regulations can prevent another near collapse of the banking system, the benefits would be enormous, possibly in the trillions of dollars (p223).

And well-designed regulations did succeed in ensuring the stability of our financial system for decades, so regulations can work. There is a simple reason for the failure of liberalization: when social returns and private rewards are misaligned, all economic activity gets distorted, including innovation (p223).

The innovation in the financial sector was directed not to improving the well-being of Americans but to improving the well-being of bankers.

Successes in the Battle of Ideas

Warren Buffet put it correctly when he said "There's been class warfare going on the the last 20 years and my class has won". During the 2008 crisis, corporate welfare reached new heights. In the great bailout of the Great Recession, one corporation alone, AIG, got more than $180 billion – more than was spent on welfare for the poor from 1990 to 2006 (p225).

Markets can't work if there isn't some discipline – if companies get only the upside of risks with society bearing the losses (p226). Favoured IMF policies have not been based on economic science; to the contrary, many of the doctrines they push have ben thoroughly discredited by research in economics over the prededing quarter century (p227).

While in Greece the notion that a deep debt restructuring was finally accepted, in Ireland even unsecured bondholders were protected – they got the high return, supposedly for bearing risk, but in the end, they were protected, at great expense to Irish society (p228).
Stiglitz, Joesph (2013). The Price of Inequality. Penguin Group, London.

America has been hot in pursuit of the wrong goals. We've lost our way. America gets worse health outcomes, in terms of longevity or virtually any other measure of health performance, but spends more money (p229).

A housing bubble kept the economy going for much of the first decade of this century – a kind of artificial life-support system that giave rise to unsustainable consumption (p229).

Conventional measures of income don't accurately reflect a broader sense of what's happening to most citizens. GDP per capital could be going up, and yet most citizens of the country could be stagnating or even becoming worse-=off, year after year: precisely what has been happening in the United States (p230).

If we measure our success by GDP, that's what we'll push for, and we'll pay insufficient attention to what's happening to most Americans. For years the standard measure of econmic performance was GNP, gross national product, roughly equal to the gross income of the citizens of a country. But then, around 1990, there was a switch to GDP, gross domestic product, the value of the goods and services produced within a country (p231).

In democratic societies, even given the power of the wealthy to control the media and shape perceptions, it is impossible to completely suppress ideas, And then these ideas resonate with so many citizens, they can take on a life of their own (p232).

The poerful try to frame the diccussion in a way that benefits their interests, realising that, in a democracy, they cannot simply impose their rule on others. In one way or another, they have to "co-opt" the rest of society to advance their agenda (p232).

Stiglitz, Joesph (2013). The Price of Inequality. Penguin Group, London.

Justice for All? How Inequality is Eroding the Rule of Law

No man is an island. In any society what one person does may hurt, or benefit, others. When those who injure others don't have to bear the full consequences of their actions, they will have inadequate incentives not to injur them, and to take precautions to avoid risks of injury (p235).

The success corporations have had in avoiding the full consequences of their actions is an example of how they shape the rules of the economic game in their favour (p236). Some people are risk takers – expecially when others bear most of the risk. The explosion aboard the Deepwater Horizon in April 2010 began a spill that spewed millions of barrels of British Petroleum oil into the Gulf of Mexico. BP executives had gambled: skimpining on safety increased their immediate profits (p237).

In this case, they gambled and lost – but the environment and residents of Louisiana and other Gulf states lost even more. One of the roles of government is to rebalance the scales of justice – and in the case of the BP disaster, it did, but very gently, and in the end, it became clear that many of the victims were likely to receive copensation that was but a fraction of what they suffered (p237).

Each individuals liberties have to be curtailed when they impose harms on ohters. One person's liberty to pollute deprives another of her health. On person's liberty to drive fast deprives another of his right not to be injured. But whose liberties are pararamount (p238)?

To answer this question, societies develop rules and regulations. These rules and regulations both affect the efficiency of the system and distribution: some gain at the expense of others. That's why "power" – political power – matters so much. If economic power in a country becomes too unevenly distributed, political consequences follow (p238).

Those with wealth will use their political power to shape the rule of loaw to provide a framework within which they can exploit others. They will use their political power, too, to ensure the preservation of inequalities rather than the attainment of a more egalitarian and more just economy and society (p239).

Corporations will argue, in effect, that they have the right to pollute – and they will ask for subsidies not to pollute; or that they have the right to impose the risk of nuclear contamination of others – and they will ask for, in effect, hidden subsidies, limitations in liability to protect themselves agains being sued if their plant explodes (p239).

Predatory Lending

Early on in the housing bubble, it became clear that the banks were engaged not only in reckless lending but also in predatory lending, taking advantage of the least educated and financially unsophisticated in our society by selling them costly mortgages and hiding details of the fees in fine print incompehensible to most people (p240).

In some states there wre attempts to stop predatory lending, and in each of these instances banks used all their political muscle to stop states from enacting laws aimed at curtailing predatory lending (p240).

Bankruptcy Law

Bankruptcy law, which specifies what happens when an individual or a corporation can't pay back what is owed, has particular relevance to two parts of our society - those at the top – the bankers, and the 99% who struggle to make ends meet (p242).

Bankruptcy law is designed to give individuals a fresh start. Virtually every modern economy has a bankruptcy law. If debts can't be discharged, or can't be discharged easily, lenders have less incentive to be careful in lending – and more incentive to engage in predatory lending (p242).

Stiglitz, Joesph (2013). The Price of Inequality. Penguin Group, London.

Every loan has a willing lender and a willing borrower; the banks are supposed to be financially sophisticated, to know how much debt individuals can manage. Bankers felt they could somehow squeeze money out of their hapless borrowers (p243).

We saw earlier that inequality has been rising sharply in the United States and is likely to increase. One of the reasons is the growing inequality of opportunity. Young people and their parents know the value of education. But even if the education is worthless, the borrower is still on the hook. And for many students, the education is frequently almost worthless (p244).

Some 80 percent of students do not graduate, and the real financial rewards of education come only upon completion of the programs – and even then they may not materialize (p244). The government proposed standards – schools would qualify for government backed loans only if there was an adequate completion rate and enough student satisfaction, with at least a minimal number of students getting the jobs that were promised. The for-profit schools and the banks fought back, largely successfully (p245).

Schools in the for=profit education industry receive as mush as 90 percent of their income from dederal student loan programs and federal aid. Enough money to make it worthwhile to invest heavily in lobbying and campaign contributions, to make sure that they were not held accountable (p245).

Usury – charging exorbitant interest rates, of course, is not limited to the United States. The hugely successful microcredit schemes in India provided credit to poor farmers and transformed their lives but it turned ugly once the profit motive was introduced (p246).

For-profit banks discovered that there was money at the bottom of the pyramid. Those on the bottom rung had little but they were so numeroius that taking a small amount from each of them was worth it. Banks all over the world enthusiastically embraced microfinance for the poor (p246).

Banks could cloak these loans in a mantle of civic virtue until a wave of suicides from farmers overburdened with debt called attention to the fact that they were not a civic virtue (p247).

At the core of property rights and consumer protection are strong procedural safeguards such as record keeping to protect those who enter into contracts. The banks had issued so many mortgages, so rapidly, that they had given short shrift to basic procedural safeguards (p247).

By law, banks were supposed to be able to prove the amounts owed. It turned out that in many cases, they simply could not. The immensity of the task led the banks to invent “robo-signing”. Instead of hiring people to examine records, many banks arranged for a single person to sign hundreds of affidavits without even looking at records (p248).

Checking records to comply with legal procedure would hurt the bank’s bottom line, so the banks adopted a policy of lying to the court (p248). Lying to the court hundreds of times should have been a great offence. There was a true pattern of crime (p249).

If corporations had been people in a state that enforced the “three strikes” rule – three instances of shoplifting and one faces a mandatory life sentence – these repeat offenders would have been sentenced to multiple life sentences, without parole (p249).

A basic principle of the rule of law and property rights is that you shouldn’t throw someone out of his home when you can’t prove he owes you money. But so assiduously did the banks pursue their foreclosures that some people were thrown out of their homes who did not owe any money (p249).

The pace of foreclosures would have been even higher had it not been for government intervention to stop robo-signing. The bank’s defence – that *most* people thrown out of their homes did owe money – was evidence that America had strayed from the rule of law and from a basic understanding of it (p250).

Stiglitz, Joesph (2013). The Price of Inequality. Penguin Group, London.

One is supposed to be innocent until proven guilty. But in the bank's logic the homeowner had to prove that he was not guilty, that he didn't owe money. We are suppposed to have a system of justice that protects the innocent (p250).

The U.S. justice system requires a burden of proof and establishes procedural safeguards to help meet that requirement. But the banks short-circuted these safeguards (p250).

The Obama administration actually fought against attempts by states to hold banks accountable, which reflects our new style of corruption. A Massacheusetts attorney general was explicit in rejecting the " too big to be accoutable" argument: "The banks may think that they are too big to fail or too big to care about the impact of their actions, but we believe they are not too big to obey the law" (p251).

The financial sector makes sure that the rule of law works in their favour, almost always against ordinary citizens. In lending and foreclosures they targeted the weak, the poorly educated, the poor. Moral scruples were set asside in the grand quest to move money from the bottom to the top (p252).

At each step of the way, from the initial making of loans to the final foreclosure, there were alternatives and regulations that would have curtailed the reckless and predatory lending and enhanced economic stability, but with a political system where money matters, these alternatives had no chance.

It's not just that justice delayed is justice denied, but that the 99% can't bear the costs of delay as well as the 1 percent (p253). In negotiations with the 99 percent a standard tactic is to make a small up-front offer and threaten to impose a long and costly process with an uncertain outcome of the offer is not accepted (p253).

When civil enforcement actions are brought against a bank, the bank pays a large fine, neither admitting nor denying guilt. They promise never to do such a thing again. But soon after their promise, they engage in si milar behavior again. Then they incur another scolding and a fine that they can afford (p255).

The cost is low relative to the profits they reap from their fradulent behavior, and, had they admitted guilt, the evidence could have been used against them in private litigation. An economic system in which there is a pattern of such abuses can't work well: fraud distorts the economy and undermines trust (p256).

It would seem we have an economic and legal system which provides incentives for bad behaviour: the executives' pay goes up when profits go up, even if the profits are based on fraud; but the company's shareholders pay the fines (p257).

In such circumstances we have to go beyond fining the company: it is people who make decisions and take actions, and they should bear responsibility for their actions. Those who commit these crimes can't just shift their accountability to an abstract entity called the "corporation" (p257).

Some may still call it the "rule of law", but in today's America the proud claim of "justice for all" has been replaced by the more modest claim of "justice for those who can afford it". And the number of people who can afford it is rapidly diminishing (p258).

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The Battle of the Budget

With the onset of the Great Recession, government revenues plummeted, and the nation's deficit and debt soared. A cry soon went out in the United States and Europe that deficits had to be brought under control as soon as possible, typically by drastic cuts in expenditures – in programs referred to as austerity (p259).

In around the year 2000, the country had large surpluses, some 2 percent of GDP. So large were the surpluses that the Fed chairman Alan Greenspan fretted that the entire national debt would soon be repaid, and that woiuld make the conduct of monetary policy difficult (p260).

The way the Federal Reserve increases or decreases interest rates is to sell or buy government Treasury bills, but if there was no government debt, there would be no Treasury bills to buy and sell. There was, according to him an answer to this potential crisis: Bush's proposed tax cut, most of the benefits when to to rich. Greenspan's support for the 2001 tax cut was pivitol (p261).

But the comination of tax cuts targeted at the top and the weakened social protection programs for the 99% would inevitably follow as fiscal constraints tightened (p261). The second contributor to the dramatic change in the country's fiscal position was the expenses incurred in the wars in Iraq and Afghanistan, with budgetary costs over the long term estmiated to exceedd $2 to $3 trillion.

Even as the Iraq war was being brought to an end in 2011, war spending still accounted for at least 15 percent of the 2012 budget deficit. Instead of raising taxes to pay for these ventures, we put them on the credit card (p262).

While the United States was fighting theose wars, it increased military spending by hundreds of billions of dollars – including spending for what critics said were weapons that didn't work, against enemies that didn't exist. America is spending as it the cold war is still ongoing: its military expenditures total that of the rest of the world put together (p262).

Defense contractors walked away with excess profits, some of which got "recycled" in the form of campaign contributons. Some of this spending took the form of "rents", with government paying prices greater than competitive market rates. The $7 billion Halliburton no-bid contract at the start of the Iraq war is a classic example (p263).

A third large source of the increase in the deficit was the new Medicare drug benefit, and while the benefit itself made sense, part of the cost was another huge "rent" – this time not to the military contractors but to the pharmaceutical industry (p263).

A provision in the bill stated that America, the largest buyer of drugs in the world couldn't negotiate drug prices with the drug companies. This was a gift worth a half trillion dollars over ten years (p263).

The critical point to bear in mind when thinking about deficit reduction is that the recession caused the deficits, not the other way around. More austerity will only worsen the downturn, and the hoped-for improvement in the fiscal position will not emerge (p264).

The causes of the reversal in the U.S. fiscal position provide a clear prescription for how to put it on a firm foundation: reverse the Bush era tax cuts for millionaires, end the wars and scale back defense spending, allow the government to negotiate drug prices, and most importantly, put the country back to work (p264).

Restoring the country to full employment w ould do more than anything else to improve the country's fiscal position (p264). Right now, speculators are taxed at a fraction of the rate of those who work for a living. It's a prime example of how those in the 1 percent have convinced the rest of society that what is in their interests is in the interests of all (p265).

Bush also argued successfully in 2003 for a temporary cut on tax on dividends, to a maximum of 15 percent, less than half the rate paid by somone who receives compararble income in the form of wages and salaries (p265).

Firms were, in effect, encouraged to pay out dividends while the tax rates were low, leaving fewer funds inside the corporation fo a good investment project, should one have turned up (p265).

A basic principle of economics holds that it is highly efficient to tax rents because such taxes don't cause any distortion. A tax on land rents doesn't make the land go away. Indeed, the great nineteenth-century progressive Henry George argued that government should rely soley on such a tax (p266).

Today, of course, we realize that rents can take many forms – they can be collected not just on land but on the value of natural resources like oil, gas, minerals and coal. There are other sources of rents, such as those derived from the exercise of monopoly power. A stiff tax on all such rents would not only reduce inequality but also reduce incentives to engage in the kind of rent-seeking activities that distort our economy and our democracy (p266).

The Right suggests that all taxes are distortionary but that's simply not true: the rent taxes would actually improve economic efficiency (p266).

A basic principle in economics is that it is better to tax bad things than good things. Compared with taxing work, a good thing, it is better to tax pollution, a bad thing. Those who pollute do not bear the costs they impose in the rest of society, and that is a major distortion in the economy. Firms thatare not paying the full costs they impose on others are, in effect, being subsidized (p267).

The financial sector has imposed enormous externalites on the rest of society, the total costs of the financial crisis for which they bear responsibility is in the trillions of dollars. Throudh our bailouts and a myriad of hidden sybsidies, we have in fact been effectively subsidizing the financial sector (p267).

There is a growing demand for the imposition of a variety of taxes on the financial sector, including a financial transaction tax. There are other ways of raising revenues – simply stop giving away resources at below-market prices to oil, gas, and mining companies. These givaways can be thought of as a subsidy to these companies (p268).

The government needs to make sure that it's not giving away willy-nilly billions of dollars, as it does when it allows TV stations to use spectrum without charge. There are other ways of raising revenue: closing the hidden subsidies to corporations buried in the tax code, or eliminating the loopholes and other special provisions that have enabled so many American corporations to escape so much of the taxes that they should be paying (p268).

Our tax system is not fair and it is widely perceived not to be fair. Levying additional taxes involves a simple principle: go where the money is. Since money has been increasingly going to the top, that's where additional tax revenues have to come from. It's really that simple (p269).

It used to be said tha t the top didn't have enough money to fill the hole in the deficit, but that is becoming less and less true. And while some welfare programs for the poor have been curtailed in recent years, corporate welfare, subsidies to corporations, have increased (p269).

Of course, whenever porposals to reduce or eliminate subsidies are broached, the recipients of those subsidies try to defend them as being in the public interest (p269).

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Most of the Right want to protect military expenditures, the necessary reductions in education, research and infrastructure would eviscerate these programs. The government could borrow today to invest in its future – for example, ensuring quality education for the 99 percent (271).

All good businesses borrow to finance expansion. And if they have high-return investments, and face low costs of capital – as the United States does today – they borrow liberally (p272). The strategy of investing in the country's future would in the medium to long run reduce the national debt; but in the short run, the government would have to borrow, and those under the influence of deficit fetishism argue that doing so is reckless (p272).

If the government simultaneously increases taxes and increases expenditure – so that the current deficit remains unchanged – the economy is stimulated (p272). If the tax and expenditure increases are chosen carefully, the increase in GDP can be two to three times the increase in spending (p273).

Money spent paynig for foreign contractors in Afghanistan doesn't stimulate the American economy; money spent paying unemployment benefits to the long-term unemployed does, simply because these individuals tend to spend every dolloar given to them (p273).

Trickle up economics can work even if trickle down economics dosent (p273). Looking across Europe, among the countries that are doing best are Sweden and Norway, with their strong welfare states and large govenments, but they chose not to join the Euro. Britain is not in crisis, through its economy is in a slump: it tooo chose not to join t he euro but it too decided to follow the austerity program (276).

Unfortunately, many members of Congress want the United States to join the same "austerity and small government" bandwagon – to cut back taxes and expenditures (p276).

Reagan supply-side economics, which held that lowering tax rates wold increase economic activity has been disproved by what happened after both the Bush and the Reagan tax cuts (p277).

The fraction of their income that corporations actually pay in taxes is much less than 35%, with some of the country's premier corporations, such as GE paying no taxes. The government could lower tax on firms that create jobs and invest in America and raise taxes on those that don't. Such a policy would raise revenues and provide incentives for more investment in job creation in the United States (p278).

The Right has succeeded in convincing many Americans that an attack on corporate welfare is "class warfare" (p279).

The first-time home buyer tax credit of $10000 could be renewed and extended to all low-income families and would simultaneously help stimulate the housing market, help restore the economy to healthy, and make it possible for lower-income families to afford homes (p280).

The task of reducing the deficit is not that difficult. Simply referse the measures that led to the reversal of the government's fiscal position from 2000 to today: raise axes at the top; cut out corporate welfare and hidden subsidies; in crease taxes on corporations that don't invest and create jobs in the united states relative to those who do; impose taxes and charges on polluters; stop the giveaways of our country's resources; cut back on military waste; and don't overpay for procurement, whether from the drug companies or defense contractors (p281).

There's more than enough money in this agenda to meet the most ambitious deficit reduction target set by any of the deficit reduction commissions (p281).

Myths

The supply-side myth argues that taxing the rich will reduce work and savings and that everyone – not just the rich – will be hurt. Every industry has its own version of the myth that helping them helps everyone: cutting back on military expenditures will cost jobs. Cutting back on tax benefits to the coal and oil industry will cost jobs and so on… (p281).

Today our problem is not supply but demand: large firms at least have the cash on hand to make any investment that they want; but without demand for their products, such investments won't be forthcoming. To stimulate investments we must focus on gettting money into the pockets of the 99 percent (p282).

When things are going well and the economy is operating near full employment, excessive military spending and lavish corporate welfare don't create jobs. They just distort the economy (p282).

Perhaps the myth that has been most effective is the claim that rising taxes on millionaires or corporations will hurt small businesses and therefore cost jobs. In reality very few small businesses would even be affected by such taxes – under 1 percent (p282).

But it's only their profits that would be slightly reduced. If it were profitable to hire a worker or buy a new machine before the tax, it would still be profitable to do so after the tax (p282).

There are better ways of handling investment than giving a blank cheque to the corporations and hoping that somehow some of that money will trickle down and eventually create jobs (p283).

When the Right is not viciously defending against even modest increases in taxes for the wealthy, those in the 1 percent and their allies advocate cuts to social insurance – both health care and Social Security for the aged – disparagingly called middle class entitlements (p283).

The Right fought against the adoption of both of these programs. Now it's blaming these programs for the country's fiscal difficulties. In the most hopeful scenarios the Right would privatize both of these programs (p284).

Privatization, of course, is based on yet another myth: that government-run programs must be inefficient, and privatization accordingly must be better. In fact, as we noted, transaction costs of Social Security and Medicare are much, much lower than those of provate-sector firms providing comparable services (p284).

This should not come as a surprise. The objective of the private sector is to make profits – for private companies, transactions costs are a good thing: the difference between what they take in and what they pay out is what they want to maximize (p284).

President Bush's agenda for privatization of Social Security was about one thing only: providing more money to the 1 percent at the expense of the 99% - more money to Wall Street. The magnitudes involved are potentially enormous. Think of the $2.6 trillion in the Social Security fund (p285). If Wall Street could get just 1 percent per year for managing that money, it would be an extra bonanza for the managers of $2.6 billion a year (p286).

If the costs of delivering health care in the United States were comparable with that of other advanced industrialized countries, America's budgetary problems would be solved (p286). The Right wants real cuts in s pending now, and a promise of future cuts in social programs. But enacting real cuts now will exacerbate the economic downturn and worsen the plight of the 99 percent.

The Right maintains that it is not that they have failed to manage total demand to keep the economy fully functioning. Instead, they shift the blame elsewhere, particularly to workers, for demanding excessive job security and too high wages, undermining the functioning of the labour market (p288).

The crisis demonstrated how wrong their views about the labour market were: the United States, with allegedly the most flexible labour market, performed far worse than countries with stronger labour protections, like Sweden and Germany. And the reason is obvious: cuts in wages reduce total demand and deepen the downturn (p288).

Austerity

The worst myths are that austerity will bring recovery and that more government spending will not. The argument is that businessmen, seeing that the government's books are in better shape, will be more confident; more confidence will lead to more investment (p288).

Interestingly, on the basis of that argument, the advocates shouls support higher public investment. Since there are public investment opportunities that are widely believed to have very high expected returns more public investment would lead to a lower long run national debt, and the belief that that was so should instill confidence, bringing an even stronger burst of economic activity (p288).

Another way to consider the merits of austerity is to look at history. History shows that austerity has almost nevr worked, and theeory explains why we shouldn't be surprised by this. Recessions are caused by lack of demand – total demand is less than what the economy is capable of producing (p289).

When the government cuts back on spending, demand is lowered even more, and unemployment increases. Underlying the myth that austerity will bring confidence is another myth – the myth that the national government's budget is like a household budget (p289).

Every household sooner or later has to live within its means. When an economy has high unemployment, the simple rule does not apply to the national budget. This is because an expansion of spending can actually expand production by creating jobs. A singled household, by spending more than its revenues, cannot change the macro economy. A national government can (p289).

The increase in GDP can be a multiple of the amount spent by the government. Those in finance stress the importance of confidence, but confidence can't be restored by policies that lead to more unemployment and lower output. Confidence can be restored only through policies that lead to growth – and austerity does just the opposite (p289).

Herbert Hoover's austerity converted the 1929 stock market crash into the Great Depression, IMF austerity converted the downturns in East Asia and Latin America into recessions and depressions; the self-imposed and forced austerity in European countries is now having the exact same effect (p290).

But austerity's advocates haven't seemed to come to terms with this overwhelming evidence. Like the doctors of the Middle Ages, the blood letters of the twenty-first century economics will not waver (p290).

The almosts $800 billion stimulus package enacted in February 2009 *did* work; if it hadn't been for the stimulus, the unemployment rate would have peaked in excess of 12 percent, more than 2 percentage points higher than the levels it eventually reached (p291).

The administration made several mistakes though. First, it underestimated the depth and duration of the downturn. Second, it believed that the primary problem was the financial crisis – not recognizing the underlying need for structural transformation. The administration failed too, to grasp the growing inequality and its impact on what happened before the risis, and what was likely to happen subsequently (p292).

These mistakes in economic analysis had consequences (p292). The administration's misjudgements were compounded by one more: the thought that if its spokesmen could talk up the economy and restore confidence then the almighty American consumer would somehow return. But these attempts to repeatedly exude confidence may have actually undermined confidence. Clearly, the country's leaders hadn't grasped what was going on (p293).

Stiglitz, Joesph (2013). The Price of Inequality. Penguin Group, London.

If government increases spending, GDP increases by a multiple of that amount. The government spending can be even more effective if it goes to high productivity investments, including those that facilitate the restructuring of the economy (p294).

Government money spent on structural reform – helping move resources from old, less competititve sectors to new sectors – stimulates the economy, and the higher incomes give individuals and firms the resources to adapt to the changed economy (p294).

In many European countries though, structural reforms entail things like lowering minimum wages, and these reforms are topped off with aspirational messages – to be more competitive. But these reforms at best improve the supply side of the economy and the wealkness in the economy today is from the demand side. Cutting back on workers' income by firing workers and lowering wages, simply lowers total demand (p295).

The views of the bankers and others in the 1 percent on how to respond to the crisis won't restore our economies to prosperity. Bankers are always thinking about getting paid back. They think of a household that owes them money. If the household cuts back on spending on itself, it has more money to give the bank (p296).

But the analogy between the household and the economy is false: cutting back on government spending destroys demand and destroys jobs. The household won't have the money to repay the banker if its income falls with cutbacks in expenditure (p296).

The 1 percent has captured and distorted the budget debate – using an understandable concern about overspending to provide cover for a program aimed at downsizing the government. It has even used the occasion of the budget battle to argue for reduced progressivity in our tax system and a cutback in the country's already limited programs of social protection (p297).

A major source of inequality in the 99 percent is unemployment. Those without jobs suffer, and so do those with jobs, as high unemployment puts strong downward pressure on wages.

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A Macroeconomic Policy and a Central Bank by and for the 1 Percent

Nothing affects the well-being of most citizens more than the state of the macroeconomy – whether there is full employment and growth (p298). The most important responsibility of policy makers is to maintain the overall stability of the economy. The Great Recession offers evidence of a colossal failure (p299).

When things were going well, most people were prospering and could persuade themselves that those who weren't only had themselves to blame. But with the recession of 2008, the story stopped making sense. Too many people who "played by the rules – studied hard, worked hard" were just getting by, or not even getting by. The system wasn't working (p299).

Policy entails choices. There are distributive consequences of all policies. Some of the policy choices that have been made have simultaneously increased in equality - benefiting those at the top – and hurt the economy (p299).

If there is a trade-off between inflation and unemployment, pursuing lower inflation means higher unemployment and workers suffer; lower unemployment means higher inflation, and bondholders see the value of their assets erode (p299).

A focus on inflation puts the bondholders interests at center stage. Imagine how different monetary policy might have been if the focus had been on keeping unemployment below 5 percent, rather than on keeping the inflation rate below 2 percent (p300).

The Fed could have curbed the reckless and predatory lending, the abusive credit card practices, but chose not to do so. Again, the banks were the winners, the rest the losers (p300).

In the 99 percent, higher unemployment than was necessary at times meant lower incomes for workers. Less protection from the abusive practices of the banks hurt their standard of living. Current policy choices may be contributing to a "jobless recovery" (p300).

These failures are not an accident. The institutional arrangements by which monetary policy is set are designed to give disproportionate voice to the bankers and their allies (p300).

The Great Recession drew attention to America's growing inequality – destroying the myth that all were benefiting from the growth that had occureed in the preceding quarter century. It also destroyed two other myths: that a focus on inflation was the cornerstone to economic stability, and that the best way of ensuring economic stability was to have an independent central bank (p301).

The United States and Western Europe have not faced a serious problem of inflation in more than a quarter of a century. Those who suffer the most in crises are workers and small businesses, and that's been especially true in this crisis, where corporate profits remain high in many sectors and banks are bankers are doing well (p302).

High unemployment hurts those who depend on working for their living; most of those with jobs face shorter hours and lower incomes. A high level of joblessness doesn't just affect those who lose their jobs or have their working hours cut: it hurts the bottom 99 percent by forcing down wages as workers compete for jobs (p302).

As soon as wages start to recover, the central bankers raise interest rates and tighten credit to maintain unemployment at an unnecessarily high level. With the result that productivity has been growitng six times faster than wages (p302).

A central theme of these bankers is that there should be more "labour market flexibility", which typically means lowering wages, especially minimum wages and job protections. But the weakening of the system of social protection and the push for more flexible labour markets may itself have amplified the macroeconomic consequences of flawed monetary policies (p303).

With good systems of social protection, workers' income and consumption are sustained, even in the face of a downward "shock" in the economy. Economists refer to these shock absorbers as automatic stabilizers (p303).

The standard macroeconomic models don't even recognize that the distribution of income matters and so it's not surprising that the Fed in its policies has often seemed oblivious to the distributional implications of its decisions (p304).

For instance, the Fed focuses on interest rates in the mistaken belief that changes in the interest rates are a simple "lever" by which it can control the econmy – lower the interest rate and the economy expands; raise the interest rate and it slows down. These links are at best weak (p304).

In response to the real estate bubble, it would have made more sense to raise the down payment requirements for mortgages than to raise interest rates; one didn't want to slow down productive investments, just to dampen the bubble (p304).

Besides cheap money for the banks – a hidden subsidy – there really wasn't much benefit to lowering the interest rates. The Fed did however suggest that lower interest rates would increase stock market prices - helping those at the top, who, as we have seen, own a disproportionate share of the stock market (p305).

The Fed's lowering of interest rates encouraged those who were planning investments to substitute cheap capital for labour. It is curious that at a time when unemployment among the unskilled was so high, that grocery and drug stores are replacing checkout clerks with automatic machines (p306).

The Federal Reserve lends to banks at very low interest rates – far below the market rate. If a bank can borrow at close to zero, and buy a long-term government bond yielding say 3 percent, it makes a nifty 3 percent profit for doing nothing. Lend the banking system a trillion dollars a year, and that's a $30 billion gift (p307).

Banks can also deposit money into the Federal Reserve, and they now, for the first time, receive interest on those deposits – another hidden transfoer from society to the banks (p307).

Money was given to the banks allegedly so that the flow of credit would not be interrupted, but no conditions were imposed on the financial institutions receiving funds. No conditions to maintain the flow of lending, no conditions not to use the money to pay bonuses (p307).

Much of the money given to baks went to bonuses, not to bank recapitalization. The government's money, for the most part, didn't go to the smaller regional and community banks that focus on lending to small and medium sized enterprises (p307).

For a strategy aimed at maintaining the flow of credit, the Fed's decisions were deeply flawed (p307).

The deference to banks likes at the center of the Fed's and other central banks' greatest contributon to inequality. The Fed and its chairman Alan Greenspan were instrumental in stripping away the r egulations that had been so important in ensuring that the financial system served the country well in the decades after the Great Depression (p308).

They were also instrumental in preventing new regulations to reflect changes in the financial sector, such as the development of derivatives, that posed threats to the stability of the financial and economic system (p308).

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It is clear from a societal perspective that banks did not help people manage risk; they created it. But when it came to managing their own risk, the bankers were more successful. They didn't bear the downside of their actions (p308).

Moreover, too-big-to-fail banks have a competitive advantage over the other banks – those who provide them finance know that they can count on a government guarantee, and thus are willing to supply them funds at lower interest rates (p309).

The big banks can thus prosper not because they are more efficient or provide better services but because they are in effect subsidized by society. Our failure to impose a tax to offset this advantage is just giving the too-big-to-fail banks another large gift (p309).

Recognising the role that lack of transparency and derivatives had played in the banking crisis, the Fed should have insisted that something be done about both (p309). While it wasn't clear whether derivatives were insurance products or gambling instruments, it was clear that they weren't loans (p310).

In no circumstances should they be underwritten by the U.S. government, through the Federal Deposit Insurance Corporation, the government agency that insures bank depositors (p310).

The current conventional wisdom is that central banks should be indpenendent. If they are subject to political forces, so the thinking goes, politicians will manipulate monetary policy for their own short-run advantage; they will stimulate the economy excessively before an election with the price – higher inflation – to be paid after the election (p311).

Central banks have been captured by the financial sector. They might not be democratically accountsalbe, but they do respond to the interests and perspectives of bankers. So, where does one draw the line in turning over the central responsibilities of government to independent authorities (p313)?

Financial markets are not just content with any set of technical experts. They prefer to have experts who share their views – views that support their interests and ideology (p313). In any democracy a public institution must have some degree of accountability (p314).

Few matters are of greater concern to citizens than the performance of the economy, and monetary policy is a central determinant of that performance. In the United States our system of governance and accountability for our central bank should in fact be an embarrassment (p315).

While the former chairman, Ben Bernanke has written forcefully about the virtue of transparency, he seems to have changed his mind once the task of profiving hidden assistance to the banks moved more to the center of the Fed's agenda (p315).

When the media requested I nformation, of the kind that other government agencies are required to disclose under the Freedom of Information Act, the Fed claimed it was not subject to the Act. Eventually, the Fed succumbed to the pressure from the courts and Congress, and when the informaiton was disclosed, the American people understood better why the Dederal Reserve had not wanted to disclose the information (p316).

The real reason for secrecy, it turned out, was to hide policies that would not meet with popular support – and to conseal inconsistencies between what the Fed was saying and what was going on. Americans never fully understood why AIG got a bailout of the magnitude that it did (p316).

But when the ultimate beneficiaries of the AIG bailout were reveealed, all became clearer; the biggest beneficiary was Goldman Sachs, and other recipients were large foreign banks, some of which were suspected of having eomplex financial dealings with Goldman Sachs (p317).

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As more information was given out, it became clear that the Fed had been lending massively to foreign banks long before the September 2008 crisis. Evidently, the U.S. Fed was the lender of last resort not only for U.S. banks but for foreign banks aswell (p317).

The data that the Fed was forced to reveal also showed that in the months after Lehman Brothers collapsed, large banks like Goldman Sachs, wre borrowing large amounts from the Fed, while simultaneously claiming pu blicly that they were in excellent health (p317).

None of this should be surprising; an independent central bank, captured by the financial sector, is going to make decisions that represent the beliefs and interests of the financial sector (p317). Even if it were desirable to have a central bank that was independent from the democratic political process, the board should at least be representative and not dominated by members of the financial sector (p318).

Today, fortunately, therre are real experts in a variety of institutions other than the financial sector – including academia, NGOs and unions (p318).

Those who favour an independent central bank often assume that there are no tradeoffs involved in the decisions the bank takes. But tradeoffs are the essecence of economic policy making. No policy is without risk. But the policies chosen by the Fed forced the brunt of the risk to be borne by homeowners, workers, taxpayers and society in general (p318).

We need to recognise that a central bank's decisions are esentially political; they should not be delegated to technocrats, and they certainly can't be delegated to those who disporportionately represent one of the vested interests (p318).

The European Central Bank, Europe's equivalent of the Federal Reserve reflects the mindset of the banks and financial community even more than the Fed does (p319).

The currently fashionable macroeconomics find its origins in the work of the influential Chicago school economist Milton Friedman, the st rong advocate of so-called free-market econoimics, which downplays the importance of externalities and ignores information imperfections and other "agency" issues (p321).

Friedman's monetary theory and policy reflected his commitment to making sure that government was small and its discretion limited. But in some ways, the Great Recession has provided a wonderful, if costly, opportunity to test some of his ideas (p322).

Friedman also had views about banking regulations – like most other regulations, he thought, they interfered with economic efficiency. He advocated "free banking", the idea that banks should be effectively unrestrained, an idea that had been tried and failed in the nineteenth century (p323).

He found a willing student in the Chilean dictator Augusto Pinochet. Free bankind did lead to a burst of economic activity in Chile as new banks were opened and credit flowed freely. But Chile experienced its deepest downturn in 1982 and it would take Chile more than a quarter century to pay back the debts that the government incurred in fixing the problem (p323).

In spite of these experiences, the view that financial markets worked well on their own – that government should not interfere – became a dominant theme during the past quarter century, pushed, as we have seen by Fed chairman Alan Greenspan and a succession of Treasury secretaries (p323).

It served the interests of the top well, even as it distored the economy. High inflation – such as the hyperinflation that plagued Germany's Weimar Republic in the early 1920s – is a real probldm, but it is not the only economic problem and it is often not the most important one (p324).

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Mild upticks in inflation, if they look as if they might become persistent, can easily be reversed in tightening credit availability. In short, it was simply wrong that the best way to maintain high employment and strong growth was to focus on inflation (p326).

As we've seen, there is a rationale in standard economic models for keeping inflation low, but these models are misleading. Ask someone who has been out of a job for four years what he would prefer – another year of unemployment or a slight increase in inflation from, say, 1 percent to two percent. The answer is unambiguous (p326).

Wall Street pundits used to argue that inflation hurt poor retirees, but that argument was also incorrect, since Social Security goes up with inflation and recipients are therefore protected. Bondholders aren't doing anyone else a favour when they maintain vigilance over inflation, and especially not when they persuade the monetary authorities to increase interest rates (p327).

Bubbles, so the Fed's logic goes, don't exist (p327). If the leaders of the Fed hadn't been so wedded to the notion that there were no bubbles, it would have been obvious to them that the unprecedented rise in housing prices relative to incomes almost surely represented a bubble (p328).

The Fed didn't have to rely on interest rate changes to dampen the bubble. It could have increased down payment requirements or tightened lending standards. Congress had given the Fed authority to do so in 1994. The Fed in its allegiance to market fundamentalism had tied its own hands (p328).

The use of the term "natural" unemployment rate suggests that it is "natural" and natural things are good, or at least unavoidable. Yet there is nothing natural about the high level of unemployment we see today (p329).

These ideas are being used by those that don't want the government to take steps to do anything about it. There are millions of Americans who have jobs but are working part-time or short hours simply because there is not enough total demand in the economy. It is clear that increases in aggregate demand would be beneficial (p329).

For most people, wages are the most important source of income. Macroeconomic and monetary policies that result in higher unemployment and lower wages for ordinary citizens are a major source of inequality in our society today (p330).

In truth the macroeconomic models placed to little attention on inequality and the consequences of policies for distribution. They may be even contributing to ensuring that the recovery, when it occurs will be jobless (p331).

There are alternative policies that would have led to better overall economic performance – wspecially if we judge economic performance by what is happening to the well-being of most citizens (p331).

We cannot have a monetary system that is run by people whose thinking is captured by the bankers and that is effectively run for the benefit of the 99%.

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The Way Forward: Another World is Possible

There's no use in pretending. In spite of the enduring belief that Americans enjoy greater social mobility than their European counterparts, America is no long the land of opportunity (p332).

Nothing illustrates what has happened more vividly then the plight of today's twenty-year-olds. Instead of starting a new life, fresh with enthusiasm and hope, many of them confront a world of anxiety and fear. Burdened with student loans that they know they will struggle to pay they search for good jobs in a dismal market (p332).

While fifty-something partents worry about their children, they also worry about their own future. They know that if they face hardship, they may not be able to turn to their children for help. The dreams of a prosperous, better life for their children may be as antiquated as somwthing out of a 1950s movie (p333).

There are societies that produce a standard of living higher than that of the United States for most of their citizens, measured not just in terms of income but in terms of health, education, security, and many other aspects that are key to determining the quality of life (p333).

Some socieities where inequality is far worse than in the United States have looked over the precipice, seen what might lie ahead, and retreated: they have managed to reduce the degree of inequality, to help the poor and to extend education (p333).

Another world is possible. We can achieve a society more in accord with our fundamental values, with more opportunity, a higher total national income, a stronger democracy and higher standards of living for most individuals. But there are some market forces pulling us the other way (p333).

Those market forces are shaped by politics, by the rules and regulations that we as a society adopt by the way our institutions behave (p333). This is not about the politics of envy: the bottom 99 percent by and large are not jealous of the social contributions that some among the 1 percent have made (p334).

But the model that best describes income determination at the top is not one based on individuals' contributions to society - marginal productivity theory mentioned earlier. Much of the income at the top is instead what we have called rents. These rents have moved dolloars from the 99% to the 1% and distorted the market to the advantage of some and the disadvantage of others (p334).

The rules of the game matter not just for the efficiency of the economy but also for distribution. The wrong rules lead to a less efficient econony and a more divided society. Investing more in our society – in education, technology and infrastructure – and providing more security to ordinary citizens will lead to a more efficient and dynamic economy (p334).

We can break out of the vicious cycle where the political domination of the top leads to beliefs and policies that enhance economic inequality and reinforce political domination. For a third of a century, workers have seen their standard ot living first stagnate and then erode (p335).

In the long-run markets may work but in the long run, as Keynes retored, we're all dead.

The Economic Reform Agenda

A real economic reform agenda would simultaneiously increase economic efficiency, fairness, and opportunity. Most Americans would gain; the only losers might be some of the 1 percent – those whose income, for instance, depends on rent seeking and those who are excessively linked to them (p336).

- **Curbing the excesses at the top**
- **Curbing the financial sector**

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    - Curb excessive risk taking and the too-big-to-fail and too-interconnected-to-fail financial institutions.
    - Make banks more transparent, especially in their treatment of over-the-counter derivatives, which should not be underwritten by government-insured financial institutions.
    - Make the banks and credit card companies more competitive and ensure that they act competitively.
    - Make it more difficult for banks to engage in predatory lending and abusive credit card practices
    - Curb the bonuses that encourage excessive risk-taking and short-sighted behavior.
    - Close down the offshore banking centers that have ben so successful both at circumventing regulations and at promoting tax evasion and avoidance.

Curbing the financial sector will be hard, because the banks are so clever at circumvention. Even if the banks are limited in size they will make contracts with each other that will ensure that they are too interconnected to fail.

- **Make competition laws stronger and more effective.**
- **Improve corporate governance - especially to limit the power of CEOs to divert so much of corporate resources for their own benefit.**
- **Comprehensively reform bankruptcy laws - from the treatment of derivatives to underwater homes to student loans.**
- **End government giveaways - whether in the disposition of public assest or in procurement.**
- **End corporate welfare - including hidden subsidies.**
- **Democratize access to justice and diminish the arms race.**
- Tax Reform
    - Create a more progressive tax system with fewer loopholes
    - Create a more effective and effectively enforced estate tax system, to prevent the creation of a new oligarchy.

Helping the Rest

A little while ago those in the 99 percent got a glimpse of the American dream, but today's reality is that for a large segment of the population that dream has now vanished.

- **Improve access to education**
- **Help ordinary Americans save**
- **Provide health care for all**
- **Strengthen our social protection programs**

While globalization may benefit society as a whole, it has left many behind – not a surprise given that, to a large extent, globalization has been managed by corporate and other special interests for their benefit. The growth of the antiglobalization movement is, under these circumstances, totally understandable (p347).

There is a need for regulations on cross-border capital flows, especially of the short-term speculative kind (p347). In reshaping globalization, we have to realize that there has occurred a race to the bottom from which we have all suffered (p348).

Even the advocates of globalization should understand that tempering globalization is in their interests. For if globalization is not managed better than it has been, there is a real risk of a retreat, into protectionism or forms of beggar-thy-neighbour policies (p348).

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The United States is in a position, for instance, to tax corporations that operate in the United States on the full basis of the profits they derive from their sales in the United States, regardless of where their production occurs (p348).

- **Restoring and maintaining full employment**
    - A fiscal policy to maintain full employment – with equality.
    - A monetary policy – and monetary institutions – to maintain full employment.
    - Correct trade imbalances.
    - Active labour market policies and improved social protection.
- **A new social compact**
    - Supporting workers' and citizens' collective action
    - Affirmative action to eliminate the legacy of discrimmination
- **Restoring sustainable and equitable growth**
    - A growth agenda based on public investment
    - Redirecting investment and innovation – to preserve jobs and the environment.

The Great Recession did not create the country's inequality, but it made it much worse, and so much harder to ignore. It's not a matter of eliminating inequality or creating full equality of opportunity. It's just a matter of reducing the level of inequality and increasing the extent of equality of opportunity (p359).

Our democracy, tilted as it may be, provides two routes by which reform can happen. Those in the 99 percent could c ome to realize that they have been duped by the 1 percent: that what is in the interests of the 1 percent is not in their interests (p359).

The second way that reform could happen: the 1 percent could realize that what's been happening in the United States is not only inconsistent with our values but not even in the 1 percent's own interest. Self-interest "properly understood" means appreciating that paying attention to everyone's self-interest – in other words,, to the common welfare – is in fact a precondition for one's own ultimate well-being (p361).

Looking out for the other guy isn't just good for the soul – it's good for business. The top 1 percent have the best houses, the best educations, the best doctors and the best lifestyles, but there is one thing that money doesn't seem to have bought: an understanding that their fate is bound up with how the other 99 percent live (p361).

Throughout history, this has been something that the top 1 percent eventually learn. Often, however, they learn too late (p361).

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