

Chapter One

The Great Panic of 2008

Before the denial came the panic. And what a panic it was.

“I am really scared,” U.S. Treasury Secretary Hank Paulson confided to his wife on September 14, 2008, as the Lehman Brothers investment bank disintegrated, sending shockwaves through global credit markets.ⁱ The next day brought Lehman’s collapse, followed a day later by that of AIG, the world’s largest insurance company. Before the month was out Washington Mutual would melt down, registering the biggest bank failure in U.S. history. Then America’s fourth largest bank, Wachovia, went on life support. A wave of European bank collapses rapidly followed.

So panicked and bewildered were global elites that Alan Greenspan, former chairman of the U.S. Federal Reserve Bank, informed a Congressional committee the following month that he was in a state of “shocked disbelief” over the failure of markets to self-regulate.ⁱⁱ Small wonder. By the fall of 2008 the global financial system was in full-fledged meltdown. Worldwide credit seized up as financial institutions refused to lend for fear that borrowers would not survive. Stock markets plummeted. Global trade collapsed. Banks toppled. As shaken commentators invoked memories of the 1930s, two U.S. investment bankers openly compared the situation with the Great Depression.ⁱⁱⁱ

“Our economy stood at the brink,” Tim Geithner, current U.S. Treasury Secretary, testified about those weeks. “The United States,” he continued, “risked a complete collapse of our financial system.”^{iv} Canada’s Finance Minister Jim Flaherty echoed this view, stating that the world economy had hovered on the edge of “catastrophe.”^v Catastrophe, indeed.

Over the course of 2008, global stock markets plunged nearly 50 percent, wiping out about \$35 trillion in financial assets. All five of Wall Street’s investment banks simply vanished—*kaput*. But the disease did not stop with the U.S. economy. Banks went under in Ireland, Spain, Germany, the UK, Iceland and beyond. Nor was the meltdown limited to finance. General Motors and Chrysler both went bust, only to be bailed out and taken over by the U.S. government. And across the meltdown, millions of people lost their jobs, and many of them their homes. Homelessness and hunger soared.

Unfolding into 2009, the crisis tracked the contours of Great Depression of the 1930s. The collapse of world industrial production, global trade, and stock market values was as severe as 1929-30, sometimes more so.^{vi} For the first time in seventy years, world capitalism seemed to have entered a crisis with no clear end in sight.

And for the first time in a very long time, the world's ruling class lost its swagger.^{vii} Arrogance and ostentation were displaced by fear and trembling. So severe was the capitalist crisis of confidence that in March 2009 the *Financial Times*, the most venerable business paper in the English-speaking world, ran a series on "The Future of Capitalism," as if that were now an issue. Introducing the series, its editors declared, "The credit crunch has destroyed faith in the free market ideology that has dominated Western economic thinking for a decade. But what can—and should—replace it?" The next day the paper's editors opined that "The world of the past three decades is gone." And one of its columnists quoted a Merrill Lynch banker who remarked, "Our world is broken—and I honestly don't know what is going to replace it."^{viii}

So palpable was the sort of fear expressed by Hank Paulson to his wife, so tangible the loss of confidence conveyed by Alan Greenspan's "shocked disbelief," that a small but important space opened up for real discussion and debate about our economic and social system. In this environment, even critics of capitalism occasionally found their views solicited by mainstream media.^{ix} "Marx is in fashion again," declared a Berlin book publisher, describing an uptick in sales of *Capital*, while in Japan a comic book version of Marx's greatest work sold tens of thousands of copies.^x

It is not hard to see why the crisis generated interest in alternative social and economic perspectives. After all, for decades mainstream economics had denied that such an event was even possible. Clinging to the so-called Efficient Market Hypothesis (EMH), which insists that markets always behave rationally, the leading lights of the economic profession repeatedly proclaimed that systemic crises were no longer possible. "The central problem of depression-prevention has been solved," announced Nobel laureate Robert Lucas, in his 2003 presidential address to the American Economic Association. Meanwhile, the originator of EMH, Eugene Fama, haughtily dismissed those who predicted a financial crisis, telling an interviewer, "The word 'bubble' drives me nuts" —just as one of the greatest financial bubbles in history was exploding.^{xi} Backed by a profession that denied the possibility of economic slumps, David Lereah, former chief economist of America's National Association of Realtors, published one of the most absurdly titled books in a very long time, *Are You Missing the Real Estate Boom?: The Boom Will Not Bust and Why Property Values Will Continue to Climb Through the End of the Decade—And How to Profit From Them* (2005). And the mainstream media, incapable of challenging the established consensus, turned the author into the foremost authority on housing prices, reproducing his views in hundreds of outlets, including the *New York Times*, the *Washington Post* and the *Wall Street Journal*.

Little surprise then that the credibility of mainstream economics went up in flames as the crisis deepened. Not only could critics of free market nostrums now find a hearing, but books like *The Myth of the Rational Market* garnered widespread attention and favourable reviews in the *Economist*, *Washington Post*, *Financial Times* and beyond.^{xii} Not that any of this led to a fundamental rethinking within the mainstream itself. Instead establishment pundits,

once they conceded that the economy was in crisis, endlessly proclaimed that it could not have been foreseen. It was a once-in-a-century event, they insisted, a bizarre aberration. “Everybody missed it—academia, the Federal Reserve, all regulators,” Alan Greenspan recently claimed — though, as we shall see, this is anything but the case.^{xiii} But by endlessly repeating these mantras, ruling class spokespeople and their media friends have been busily creating a structure of denial and mystification meant to close off critical inquiry into what actually happened—and why.

But just as denial is unhealthy for individuals, so it is for groups and societies. To deny or repress a traumatic experience means, as Freud taught us, to invariably repeat it.^{xiv} And this is what global elites are in the process of doing. By denying the trauma of the meltdown and their own profound panic, by trying to wipe them from memory, they trap society in a repetitive cycle of trauma and repression. Of course, it is in their interest to do so; they profit from a culture that inhibits critical inquiry and analysis. But the vast majority—those who do not own banks and giant corporations, or multi-million dollar stock and bond portfolios—need to understand the world in order to change it. And that requires confronting traumatic experiences—especially when jobs, incomes, housing, education, pensions, not to speak of human happiness and well-being are at stake. So, let us resist the denials and mystifications and probe the Panic of 2008 a bit more.

Why Hank Paulson was Scared

Hank Paulson had good reason to be scared on September 14, 2008. Global capitalism was in freefall, as one financial institution after another was taken down by “the most virulent global financial crisis ever.”^{xv} With stunning rapidity, eight major U.S. banks collapsed, as did more than twenty in Europe, many of them to be taken over by governments. GM and Chrysler went bust, along with many parts suppliers. Tens of millions of people worldwide were thrown out of work. And no amount of government intervention seemed capable of calming the markets. Despite a full 18 months of warning signs, from the collapse of hedge funds to huge losses at investment banks, government officials utterly failed to grasp the nature or severity of the crisis. On March 28, for instance, Fed chair Ben Bernanke calmly asserted that, rather than undermining the broader economy, mortgage-related problems were “likely to be contained.” A few weeks later, the International Monetary Fund went further, issuing the astonishing claim that “global economic risks have declined . . . The overall U.S. economy is holding up well.”^{xvi} This was more than deception. It was also stupidity—as we shall see in Chapter Four. Government leaders, just like world bankers, truly did not understand what was happening to the world economy. Yet, as the accompanying box, which tracks the First Phase of the crisis, demonstrates, the powers-that-be had received plenty of warning as to what was coming.

Before the Collapse of Lehman Brothers: Phase One of the Crisis

- **February 7, 2007:** HSBC Holdings, the world's third-largest bank, announces a \$10.6 billion loss on bad debts related to U.S. mortgage securities. The same day, America's second largest sub-prime mortgage lender, New Century Financial, informs investors of losses in the final quarter of 2006.
- **April 2, 2007:** New Century Financial declares bankruptcy.
- **July 2007:** Wall Street investment bank Bear Stearns shuts down two multi-billion dollar hedge funds after massive losses (\$1.6 billion) on mortgage-backed securities, announcing that its Collateralized Debt Obligations are worthless.
- **August 6, 2007:** American Home Mortgage Investment Corporation files for bankruptcy.
- **August 9, 2007:** BNP Paribas, France's largest bank, halts redemptions from three investment funds holding mortgage-backed bonds, leading to panic in European money markets.
- **Mid-September 2007:** British bank Northern Rock seeks emergency support from the Bank of England, provoking a run on deposits.
- **October 24, 2007:** Merrill Lynch announces its biggest-ever quarterly loss: \$2.3 billion.
- **October- November 2007:** Citigroup, one of the world's largest banks, declares losses of nearly \$17 billion
- **February 17, 2008:** British bank Northern Rock goes bust – taken over by UK government.
- **March 13-17, 2008:** Wall Street investment bank Bear Stearns collapses, after cash reserves drop from \$18 billion to \$2 billion in a matter of days. The bank's shares, which had started the year at \$173, now trade for a few dollars. The U.S. Federal Reserve backstops a takeover by JPMorgan Chase.
- **July 11, 2008:** IndyMac Federal Bank collapses, the third-largest bank failure in U.S. history to that date. Fannie Mae and Freddie Mac, the world's largest mortgage lenders, lose half their value the same week.
- **September 5-7, 2008:** As Fannie and Freddie disintegrate, the U.S. government takes them over, committing \$200 billion to cover their bad debts.

Phase Two: Lehman's Meltdown Triggers Global Collapses

- **September 15, 2008:** Lehman Brothers collapses, at \$635 billion it is by far the largest bankruptcy in U.S. history.
- **September 16, 2008:** The U.S. government bails out AIG, the world's largest insurance company.
- **September 18, 2008:** Investment bank Merrill Lynch reveals losses of \$50 billion on mortgage-related investments, while Citigroup announces similar losses of over \$60 billion.
- **September 21, 2008:** Wall Street investment banks Goldman Sachs and Morgan Stanley are turned into holding companies in order to access government protection. All five Wall Street investment banks have now vanished in the course of seven months.
- **September 25, 2008:** Washington Mutual, with assets of \$307 billion, goes bust, the largest bank failure in U.S. history.
- **September 29, 2008:** Wachovia, the fourth largest bank in the U.S. collapses, and is bought up by Citigroup. Three European banks go under, as the British government seizes Bradford and Bingley, Germany bails out Hypo Real Estate; and Belgium and other countries rescues Fortis.
- **September 30, 2008:** More European bank failures: France and Belgium bail out Dexia, while Ireland pumps \$574 billion into its banking system. The U.S. government pumps \$25 billion into General Motors and Chrysler, as the automakers teeter on the brink of collapse.
- **October 7, 2008:** The government of Iceland takes over the country's two largest banks.

At this point, it should have been obvious that something was seriously amiss with the world's financial institutions. Indeed, it *was* obvious to a small number of critics and commentators, as we shall see. But since mainstream economics, armed with the Efficient Market Hypothesis, claimed that markets would quickly self-correct, government officials, bankers, and media talking heads kept proclaiming that all was well, or soon would be. To be sure, some of this was just the steady diet of lies and distortions that our rulers feed the people. But much of it was also their own stupidity, their incapacity to see that neoliberal capitalism was profoundly unstable and that its financial structure was coming undone. Had Paulson and the U.S. government brain trust at the Treasury and the Federal Reserve—which included Fed chief Ben Bernanke and then New York Fed president Tim Geithner—actually understood what they were dealing with, they would not have let Lehman collapse. For the disintegration of the New York investment bank triggered Phase Two of the crisis, by far its most virulent stage, sending shockwaves through the global economy that took down banks and at least one government.

The implosion of Lehman Brothers on September 15, 2008 was a truly spectacular event, without precedent in U.S. economic history. Seven years earlier, the collapse of Enron, worth \$60 billion, had astounded commentators. But Lehman, valued at \$635 billion only five days before it went under, was more than ten times the size of Enron and more than six times larger

than WorldCom when it melted down some months after Enron. Most important, it was dramatically more interconnected with the world's financial institutions. The Enron and WorldCom failures were early tremors, shifts in the fault lines that signalled the quakes to come. The false calm that ensued was broken by the wave of shocks that started in mid-2007. But Lehman's collapse was the Big One, a tectonic eruption that blew a gigantic hole in the world economy. If Lehman could go down, after 158 years as perhaps "the greatest merchant bank Wall Street ever knew," then no one was safe.^{xvii} Worse, nobody—not Lehman's directors, not Treasury and Fed officials, not savvy investors—could calibrate the scale of the damage.

Because of the increasingly complex financial instruments that had emerged across the neoliberal era, an utterly opaque market had developed in which no one could figure out who owed what to whom. Derivatives, Collateralized Debt Obligations, Credit Default Swaps and similar instruments (all of which I explain in Chapter Four) might have been profitable for a while, but they were obscure, deceptive and volatile. Built upon fantasies, deceit and nonsensical formulas, the values of these "assets" were impossible to calibrate, particularly as they melted down. "We have no idea of our derivatives exposure and neither do you," Lehman bosses told Treasury and Fed officials poring over their books as the firm expired.^{xviii} As a result, no institution was prepared to lend to another, for fear that its borrower too would collapse and never repay. Worse, by this point, "Every major firm on Wall Street was either bankrupt or fatally intertwined with a bankrupt system," one critic has noted.^{xix} As credit markets seized up for lack of lending, global financial institutions started to fall like dominoes. With every day bringing a new announcement of bank failures, it truly looked like the world economy would slip "into the abyss," as one White House aide later put it.^{xx} The accompanying box gives a sense of what the tumult looked like.

As multi-billion dollar banks collapsed, even Hank Paulson now understood that something was gravely, desperately wrong: “I’m worried about the world falling apart,” he confessed.^{xxi} Meeting with senior U.S. senators some days later, he implored them, “Unless you act, the financial system of this country, and the world, will melt down in a matter of days.”^{xxii}

Nothing like this had happened since the Great Crash of the 1930s. Within the space of just over four weeks, the U.S. had experienced its largest ever bankruptcy (Lehman Brothers), its largest commercial bank failure (Washington Mutual), the disappearance of Wall Street’s two remaining investment banks, and the bailout of the world’s largest insurance company. Europe, meanwhile, had endured a wave of toppling banks, resulting in takeovers or bailouts by governments in five countries. Still, the meltdown was far from over. Before the end of January 2009, AIG would be bailed out two more times, and both Citigroup and Bank of America would be rescued. That same month the government of Iceland was toppled by mass protests over economic policies that had destroyed that country’s financial system. It was in this climate of continuing panic that the *Financial Times* began to query the future of capitalism.

After the Great Denial: Welcome to the “Decade of Pain”

Today, however, we are instructed to forget all of the above. Reflections on the future of capitalism have disappeared from mainstream media, including the *Financial Times*. The Great Panic has been replaced by the Great Denial. Having managed to halt the meltdown and generate a small economic bounce—thanks to the most massive global bailout ever undertaken—our planet’s rulers are hurriedly sweeping their fear and panic under boardroom carpets. All is well with the world, they declare. The Masters of the Universe have saved the day and capitalism once again reigns supreme. We were not at fault, they insist, because no one could have foreseen this crisis. It was a bolt from the sky, the financial equivalent of a “hundred year flood,” in the words of Alan Greenspan.^{xxiii} And now that the flood has passed, so they claim, we can return to business as usual.

Yet, this is all a little too anxious and easy. While the meltdown has been halted, profound economic problems persist and new crises are already brewing. Perhaps sensing that the storms are far from over, the ruling class is at work shifting the very terms of debate. Rather than discuss what ails capitalism, it is devising a rhetoric designed to blame its victims. No longer are global banks or giant corporations at fault. No longer need government officials and regulators be scrutinized for their failures to prevent lies, scams and swindles—and the meltdown that accompanied them. No, the real culprits are poor and working class people who expected too much. Having bailed out the very banks and global corporations that created the

crisis, political elites are now scapegoating its victims: poor racialized minorities in the U.S. who were conned into taking out mortgages designed to explode, or Greek teachers and public employees who think they have a right to decent pensions after a lifetime of service. As they construct this discourse, our rulers hope to soften us up for “a decade of pain” —a period of high unemployment, falling incomes, and huge cuts to health care, education and social welfare programs.

“A decade of pain” is the term coined by the Institute for Fiscal Studies (IFI) in Britain to describe what faces ordinary citizens as a result of their government’s massive rescue of banks and the \$275 billion annual deficit it (and associated costs of the recession) has created. The IFI estimates that by 2017-18 the average British family will be more than \$4500 poorer, as a result of increased taxes or diminished social services, or some combination of the two, all to be imposed in order to eliminate the government deficit.^{xxiv} Other British commentators, from politicians to business analysts, have employed the expression “decade of austerity” to describe what is in store. But let’s not quibble over the term, since pain and austerity are inseparable. Instead, let’s look at what austerity—big reductions in public spending—will mean.

California is a useful starting point. In an effort to balance the books on the backs of the poor, the governor of the largest U.S. state, Arnold Schwarzenegger, has slashed billions from social spending. Fully \$1 billion has been cut from programs that directly support the most disadvantaged, including funds for rural migrant clinics, temporary assistance to needy families, health insurance for 900,000 poor children, and services dealing with domestic violence and maternal and child health. Altogether forty-five U.S. states are in deficit at the moment—and cutting frantically. Arizona too has scrapped its Children’s Health Insurance Program; Ohio has slashed community mental health services; and Minnesota is eliminating health coverage for low-income adults. Some thirty-six states have chopped higher education spending, twenty-four have reduced services to the elderly and the disabled, even more have attacked health care.^{xxv} All of this is happening at a time when, as a consequence of the crisis, millions more will need such services after having been driven below the poverty line. Government agencies may have declared an end to the recession of 2007-9, **yet the real unemployment rate in the U.S. is about 17 percent**; for African-Americans and Latinos it is at depression levels, above 25 percent. Not surprisingly, use of food stamps is soaring. One in every eight adults and one in every four children in America is currently using food stamps in order to feed themselves. Incredibly, nearly half of all U.S. kids will rely on food stamps at some point in their childhood—a figure that rises to almost 90 percent for both black children and kids in single-parent households.^{xxvi} Meanwhile, over one million school age children are homeless.^{xxvii} Yet, it is these people—children, the elderly, single-parent families, the homeless, the unemployed, and the under-employed—who will be hammered hardest by cuts to health care, education, and social

assistance programs. Capitalism is attempting to right its ship at their expense, by punishing its victims for the system's latest crisis.

As we have seen, the U.S. is not unique in this regard, even if its situation is particularly shameful. Britain's decade of pain will involve sustained cuts to social spending—a long-term “strategic transformation” of the state, as one economic consulting group has put it—similar to the structural adjustment programs imposed on countries in the Global South in recent decades.^{xxviii} The Greek government meanwhile, after having committed billions to banks, is savaging the poor by slashing billions from public spending. In order to bring its deficit under control, it has raised the sales tax to 21 percent, cutting public sector jobs, pay, and benefits while chopping pensions in half. Meanwhile, Latvia has fired one-third of all teachers and slashed pensions by 70 percent [repeat from intro?]. Once held up as a shining example of the success of neoliberalism, the Irish government is savaging the public sector, cutting 10 per cent from child benefits, four percent from welfare, and 22.5 per cent from wages of public employees. But among the most obscene cases is that of the Canadian province, British Columbia (BC). After having doled out billions on the lavish 2010 Winter Olympics, the province turned around and introduced a budget that slams the poor. Attacking a program that had previously funded monthly nutritional supplements for low-income people suffering malnutrition, significant weight loss, marked neurological degeneration, and other severe symptoms, the BC government will henceforth require that people exhibit at least *two* such conditions in order to qualify. Not to be outdone, the government of Ontario, the country's largest province, used its 2010 budget to completely eliminate its Special Diet program for poor people with health problems.^{xxix}

This, then, is where we find ourselves at the supposed “end” of the crisis. While banks and multinationals have been rescued, there is no bailout for working class people, who can only expect more “pain” for years and years to come. As corporate profits recover, jobs, incomes and social services continue to disappear. So blatant is the contradiction between what is happening to capital and what is going on with everyone else that even former U.S. Treasury Secretary Larry Summers acknowledges we are in the midst of “a statistical recovery and a human recession.”^{xxx} But the human recession hits some a lot more than others. As noted in the Introduction, the compiler of the *Sunday Times Rich List* in Britain has observed, not only have “the rich have come through the recession with flying colours,” but social service cuts have “little effect on the rich because they don't consume public services.”^{xxxi} [repeat?] In other words, it is the working class and the poor who will pay for the crisis. Moreover, as I explain in the chapters that follow, the economy itself is fated to remain sluggish, incapable of generating robust growth. And by reducing employment and incomes, government austerity will intensify the economic slump, as the central bank of Greece has acknowledged.^{xxxii} Working class and poor people thus face a prolonged period of high unemployment and financial pain.

Welcome to the global slump. How we got here, why things will not improve any time soon, and what we might do about a system that breeds human recessions—these are the themes of the chapters that follow.

ⁱ Henry M. Paulson, Jr., *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System* (New York:Business Plus, 2010), p. 215.

ⁱⁱ Alan Greenspan, “Testimony to the House Committee on Oversight and Government Reform,” October 23, 2008. Available at: <http://oversight/hoU.S.e.gov/documents/20081023100438.pdf>.

ⁱⁱⁱ Greg Farrell, “Merrill chief sees severe global slowdown,” *Financial Times*, November 11, 2008; “Doom and Gloom Rule on Wall Street,” *Globe and Mail*, November 13, 2008.

^{iv} Bloomberg, “Geithner Recounts AIG Rescue in Testimony to U.S. House (Text),” January 27, 2010. Available at: <http://www.businessweek.com/news/2010-01-27/geithner-recounts-aig-rescue-in-testimony-to-u-s-hoU.S.e-text-.html>.

^v Quoted in Tara Perkins, “Weak Growth Delays Attack on Deficit,” *Globe and Mail*, November 21, 2009.

^{vi} See Barry Eichengreen and Kevin H. O’Rourke, “A Tale of Two Depressions,” *Vox*, June 4, 2009 and updated March 8, 2010. Available at: <http://www.voxeu.org/index.php?q=taxonomy/term/1619>.

^{vii} Throughout this work, I use the term *ruling class* in both the singular and the plural. This is because capitalism both pushes capitalists together – in their opposition to the workers of the world – and pulls them apart, in their

competition for markets and profits. Capitalists are thus “hostile brothers,” as Marx put it in *Capital*, volume 3. They struggle against one another – and this is the sense in which they are a competing set of ruling classes – and they join together to defend their common interests against global labor, thus forming a single world ruling class. Marx’s concept of the ruling class includes both of these tendencies, which is why it also involves the necessity of a bourgeois state to mediate the antagonisms between capitalists and forge class unity. And coordination among dominant states – via institutions like the G8, G20, World Bank and International Monetary Fund – is designed to produce unified global capitalist policy. At different points in this text I will use the term *ruling class* in a way that reflects which feature – its unity or its divisions – dominates in a particular context. For Marx’s use of the term “hostile brothers,” see *Capital*, volume 3, chapter 15, available at <http://www.marxists.org/archive/marx/works/1894-c3/ch15.htm>.

^{viii} See, “The Future of Capitalism,” *Financial Times*, March 8, 2009, and Gillian Tett, “Lost Through Destructive Creation,” *Financial Times*, March 9, 2009.

^{ix} Certainly this was true of me, having been more widely interviewed on television, radio and in newspapers than ever before. And it was even more the case for my York University colleague, Leo Panitch.

^x See Kate Connolly, “Booklovers Turn to Karl Marx as Financial Crisis Bites in Germany,” *Guardian*, October 15, 2008; and Leo Lewis, “Karl Marx Goes Manga in a Kapital Comic Strip,” *Times of London*, November 18, 2008.

^{xi} Douglas Clement, “Interview with Eugene Fama,” *The Region*, Federal Reserve Bank of Minneapolis, November 2, 2007.

^{xii} Justin Fox, *The Myth of the Rational Market: A History of Risk, Reward and Delusion on Wall Street* (New York: Harper Collins, 2009).

^{xiii} Rich Miller and Josh Zumbrun, “Greenspan Takes Issue with Yellen on Fed’s Role in House Bubble,” *Bloomberg.com.*, March 27, 2010.

^{xiv} Sigmund Freud, “Five Lectures on Psycho-Analysis” in *Two Short Accounts of Psycho-Analysis* (Harmondsworth: Penguin Books, 1991).

^{xv} Alan Greenspan, “The Crisis,” March 9, 2010, p. 3. Available at:

http://www.brookings.edu/~media/Files/Programs/ES/BPEA/2010_spring_bpea_papers/spring2010_greenspan.pdf.

^{xvi} Ben S. Bernanke, “The economic outlook,” Testimony before the Joint Economic Committee, U.S. Congress, March 28, 2007. Available at: <http://www.federalreserve.gov/newsevents/testimony/bernanke20070328a.htm>; International Monetary Fund, *World Economic Outlook 2007* (Washington: IMF, 2007), p. 162.

^{xvii} Lawrence G. McDonald, *A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers* (New York: Crown Business, 2009), p. 1.

^{xviii} Francesco Guerrera and Nicole Bullock, “Struggle to Unearth Quake’s Epicentre,” *Financial Times*, July 31, 2008.

^{xix} Michael Lewis, *The Big Short: Inside the Doomsday Machine* (New York: Norton, 2010), p. 262.

^{xx} Obama advisor David Axelrod, speaking to CCN, as quoted by Brent Kendall, “White House Aides Out in Force Pushing for Bernanke Approval,” *Wall Street Journal*, January 25, 2010.

^{xxi} Paulson, p. 106.

^{xxii} As reported by Senator Chris Dodd on PBS, “Frontline: Inside the Meltdown,” February 17, 2009.

^{xxiii} Greenspan, “The Crisis,” p. 18.

^{xxiv} The IFI report refers to “two parliaments of pain,” which is the equivalent of a decade. See Steve Schifferes, “UK Economy Faces Decade of Pain,” BBC news, April 23, 2010. Available online at:

<<http://news.bbc.co.uk/2/hi/bU.S.iness/8015063.stm>>

^{xxv} Abby Goodnough, “States Turning to Last resorts in Budget Cuts,” *New York Times*, June 22, 2009; Barrie McKenna, “Think Greece is a Drag on Europe? California’s Sorry State a Bigger Threat to U.S.,” *Globe and Mail*, February 16, 2010; Bob Herbert, “A Ruinous Meltdown,” *New York Times*, March 20, 2010; Nicholas Johnson, Phil Oliff and Erica Williams, *An Update on State Budget Cuts: Governors Proposing New Round of Cuts for 2011; At Least 45 States Have Already Imposed Cuts That Hurt Vulnerable Residents*, Center on Budget and Policy Priorities, March 8, 2010. Available at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=1214>.

^{xxvi} Jason DeParle and Robert Gebeloff, "Food Stamp Use Soars across U.S., and Stigma Fades," *New York Times*, November 29, 2009; Agence France press, "Half of U.S. Kids Depend on Food Stamps During Childhood," November 2, 2009.

^{xxvii} Eric Eckholm, "More Homeless Pupils, More Strained Schools," *New York Times*, September 6, 2009. I explain the real unemployment rate in Chapter Five.

^{xxviii} See KPMG, "Tough Choices Ahead: The Future of the Public Sector," February 8, 2010. Available at: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Pages/Tough-Choices-Ahead.aspx>.

^{xxix} On British Columbia see Peter McMartin, "After the Pricey 2010 Party, the Poor Take it in the Teeth," *Vancouver Sun*, April 3, 2010. On the Ontario case see the superb ongoing coverage by the Ontario Coalition Against Poverty, available at: <http://www.ocap.ca/>.

^{xxx} Neal Lipschutz, "Summers: 'Statistical Recovery and Human Recession,'" *Wall Street Journal Blogs*, January 30, 2010. Available at: <http://blogs.wsj.com/davos/2010/01/30/summers-statistical-recovery-and-human-recession/>.

^{xxxi} Philip Beresford, "The Sunday Times Rich List 2010: Rising from the Rubble," *The Sunday Times*, April 25, 2010.

^{xxxii} Helena Smith, "Greece's Spending Cuts are Making Debt Crisis Worse, Says National Bank," *Guardian*, March 22, 2010.