Keynote Address

The Global Crisis: Is It Over Yet?

SIMON JOHNSON

My task is to speak on the global crisis and to address the issue of whether it is over or in what sense it is not over. I should make it very clear that I speak only for myself today and that none of my previous or current employers or associated organizations would in any way endorse what I am saying; these include the Congressional Budget Office, where I am on the Panel of Economic Advisers. I draw heavily on work with my co-authors, particularly James Kwak, who is, as Mr. Shin said, co-founder of my Web site BaselineScenario.com.

The quick answer to the question, is the world crisis over yet? is a reassuring yes. Confidence is returning to financial markets. We have not yet seen a full stabilization, particularly with regard to unemployment, but we have seen substantial improvement. Some stability is returning to financial markets, and that is very good news. Perhaps we should just relax and take the rest of the afternoon off. At the same time, in a very real and important sense, the crisis is not over. Not only is it not over, but the underlying problems that brought us into this situation are, in my view, still with us and have actually gotten worse.

In this address, I will try to explain the role in which an oversized financial sector in the United States but also in other parts of the industrial world, particularly but not exclusively in Western Europe, has contributed to the buildup of vulnerabilities over the past six months to two years. And because of the way in which the short-term problems are being addressed—the U.S. government is throwing a massive amount of money and other resources at the U.S. banking system—these vulnerabilities are getting worse rather than better.

I am an optimist, and nothing about my message should be considered dark or pessimistic. There is going to be a 5- to 10-year reform process in the United States

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and perhaps in other countries, and eventually real reform will come. The financial sector will be substantially changed in the United States, and that will be a good thing for all of us. But the United States has already missed the opportunity to act immediately—by which I mean this year—and the costs of missing that opportunity are enormous. The costs are significant for American citizens and for the American economy, but they are potentially much more traumatic for the rest of the world, including East Asia and the Republic of Korea.

You can take two views of the crisis. One is the official view, which you hear from U.S. government officials; it is the G-20 consensus. It is expressed most articulately in the United States by Larry Summers, who is, of course, the former secretary of the Treasury, the current head of the National Economic Council in the White House, and President Obama's right-hand person for all things economic. Larry Summers says that we have experienced a rare and unfortunate accident. It only happens about once a century, in his view, although, by his own account, we have experienced about 10 major financial crises in the past 20 years. Nevertheless, the crises that happen once a century are very complex and have to be sorted out by the experts. I will come back to that point.

Such a crisis needs to be counteracted with a massive, absolutely huge, macroeconomic policy response, which is unprecedented for peacetime. The last time the United States or any other country did something like this was at a time of war. I believe that the ratio of U.S. debt to gross domestic product (GDP) is going to double as a direct result of this crisis and the measures taken to counteract it. This is my personal opinion, which is why I am leaving the Congressional Budget Office out of this. I believe that U.S. debt will grow from about 41 percent of GDP to around 80 percent. That is not necessarily a catastrophe. There is a view that the U.S. can afford this level of debt, but it is a large increase in debt for no good purpose. In addition to this enormous macroeconomic response, the great deal of regulatory forbearance for the banks, and the substantial amount of cash being pumped into the banking system (perhaps the full extent of which we do not yet know), there is also a regulatory response, which is tiny.

This is where U.S. policy currently stands, and I track this on a day-to-day basis. I present my arguments and contrast them with the official view through my Web site. I testify before Congress quite frequently. I run a Web site for the *Washington Post* that tracks congressional hearings and the debate around economics. I am quite familiar with the details. The proposed regulatory changes do not go very far. The official view is that the crisis is under control: "Don't worry. Go back to your homes. Be happy."

The second view is somewhat different. It says that a political and economic structural change has taken place in the United States and other countries since the 1980s. Essentially a U.S.-led change created global vulnerability as a result of the destabilizing power of the financial sector. This experience is not at all unusual. It is a standard part of U.S. history and global history, although we have not seen it for the past 50 years in the United States. In some sense, we have returned to previous experiences in the United States and in other parts of the world, but we have returned to them in

a particular kind of globalized economy in which the United States is playing a particular kind of role.

Many measures have been taken to stabilize the system. You can track them on my Web site. The approach is big, and it is expensive; it works in the sense that if the government puts huge unconditional and potentially unlimited subsidies into the banking system—if it has the fiscal capacity to do that—the system is going to stabilize. The government has reduced the probability of bank runs and bankruptcy, but there is still a level of risk around a couple of major U.S. banks. This is extraordinary given the support that has been provided.

As a result, the government has created more job security for insiders. Very few executives—the leaders of the major banks who destroyed the value of their companies and wiped out most of their shareholder value—have lost their jobs. It is a terrific time to be running a bank. The official approach has also helped stock investors, at least for a while. Some confidence has returned to the markets, although it might be temporary. What is wrong with that? What is wrong with pumping massive amounts of subsidies into a troubled sector? The official view is that an accident occurred and we should feel sorry for these poor, downtrodden banks and bankers.

The problem is that in the United States and around the world, powerful groups tend to rise, particularly on the back of long economic booms, and they tend to take over the political system. That is very bad for society as a whole.

The United States has gone through exactly what we are facing now at least three times in its history. In the 1830s there was a confrontation between then-president Andrew Jackson and the Second Bank of the United States, which was the financial powerhouse of its day. It was a nasty confrontation that lasted at least five years and resulted in the destruction of the bank, with plenty of collateral damage. The executive power—the power of the presidency—prevailed in those circumstances. At the end of the nineteenth century, we also experienced the rise of the big railroad trusts, which were also based on banks and on access to finance, so industrial power was interwoven with financial power in that episode. Teddy Roosevelt confronted this confluence beginning in about 1901, and, again, the fight was very difficult, protracted, and vicious, lasting close to five years before, once again, the political power of these industrial and financial groups was curtailed. And, of course, the Great Crash took place at the end of the 1920s and the beginning of the 1930s. Perhaps the most famous confrontation between political power and finance in the United States occurred around the so-called Pecora hearings, which exposed many of the wrongdoings of major financial firms, including the forerunner of what is now Citigroup and the forerunner of what is now JP Morgan-Chase. These hearings resulted in modern securities law and much of the legal foundation for the postwar regulation in the United States that worked quite well, at least through the 1980s.

The highly regulated banks of the 1940s to 1970s in the United States should not be seen necessarily as the natural state of things. They were part of a historical cycle of deregulation and reregulation that has characterized 200-plus years of American financial history. It is a cycle seen in many other parts of the world.

There is, however, a difference between now and the end of the nineteenth century. At the end of the nineteenth century, the United States had large railroad trusts with big banks behind them, and the problem was one of monopoly power. Some textbooks state that the Sherman Antitrust Act of 1890 created a clear legal foundation for breaking up these trusts, but that is a simplification. In fact, Teddy Roosevelt made a very deliberate and difficult political decision to confront the major trusts, particularly those backed by the House of Morgan (JP Morgan). This decision led to the political struggle and reforms of the early twentieth century.

The difference between that situation and today is that the large banks, again, have extraordinary political influence in the United States and elsewhere. Part of this influence is based on what I consider to be largely false claims of financial innovation, which involved consumers overpaying for products in a way that is quite close to the overpaying that occurred as a result of the monopoly power surrounding railroad fares, which was the big deal at the end of the nineteenth century. In addition, a much worse problem is that the banks have figured out, perhaps inadvertently, how to extract rents from the state. This is not a troubled emerging market or a developing country. This is the United States. The most sophisticated, advanced financial system in the world has come to the point where banks are extracting enormous rents directly from the state and are forcing the government into a position where officials feel they have no alternative but to engage in this enormous increase, unprecedented in peacetime, in the public debt.

This is not what is commonly referred to in the United States as regulatory capture. There are some features of regulatory capture, but this is essentially state capture. This is the power of the banking system to cause damage in order to transfer rents from the state to itself. This power has not been seen in the United States for 50-plus years and has not been seen in industrial countries for a long time. It is not corruption, such as seen in Indonesia at the time of President Suharto or in the United States in the nineteenth century. The United States is not exempt from corruption, but it is on a small scale. It is not the kind of political connections that, for example, characterized the functioning of Malaysia under Prime Minister Mahathir or, again, that were evident in the United States in some previous historical episodes.

The United States has the world's most advanced oligarchy. Oligarchy is an uncomfortable word for Americans, and I do not use it lightly. It is a word that I and others introduced into the popular economic lexicon earlier this year with some trepidation. But it has caught on, and it does convey the essence of the idea, as defined by Aristotle, that political power arises from economic power. The banking sector has converted enormous economic power into political power, particularly through what we call a form of cultural capital. It has persuaded people that letting finance run unfettered in the 1990s and 2000s was good for the economy. What was good for Wall Street was great for the U.S. economy and great for the global economy, although there was some hesitation about that after the 1997–98 Asian currency crisis. Part of this power comes through campaign contributions. Both parties—but particularly right now the Democratic Party—rely heavily on

donations from Wall Street, for example, to fund congressional races and support the general fund.

The problem is more damaging and more dangerous than corruption or political connections or straight campaign contributions. It is a form of intellectual capture. It is a form of persuading people that there is a genius of finance and that the genius has somehow transformed the nature of productivity and the nature of lending money; therefore, banks should be allowed to do whatever they want. That is wrong. It is incredibly dangerous. It has got us into this very difficult global economic situation, and it is not being fixed.

In an article published recently in the *Atlantic Monthly* (Johnson 2009), I explain how this story, this political economy, what happened in the United States, is not unique to the United States. It is a particular manifestation of issues and developments seen much more broadly in other episodes around the world. As a result of deregulation in the 1980s, major finance players gained rising economic power in the United States. This money was put back into politics and into buying intellectual influence. The bandwagon of banks was immensely alluring to many, and this helped to build arguments for further deregulation and for running relatively easy monetary policy. The movement in this direction was greatly helped by the arrival of "new technologies." One was the availability of emerging markets that were potentially open to capital flows, and this is something that Jagdish Bhagwati (1998) has written about eloquently in an influential article called "The Capital Myth." He said that this was very dangerous, and he was absolutely right. What he did not fully realize—what none of us realized at the time—was that the biggest danger for emerging markets and for the world was the effect of unfettered finance on the United States. This, of course, was particularly the case once derivatives became more readily tradable and once the falling costs of computing power made it easier for more people to enter those markets. All of this created more economic power for the big banks.

The story that I am telling you—a boom based on initial economic advantage turns that advantage into political privilege, tilting the playing field—is, of course, a standard emerging-market boom. It is Russia or Ukraine or Brazil in various episodes. I am not saying that it is Korea. The boom brings five or 15 years of good growth, but it entails taking a lot of risks with borrowed money. This occurs, in part, because investors feel that the financial system has a lot of political power and that the state will stand behind it. The overexpansion creates vulnerability to shocks, and, of course, this comes to a grinding halt through some combination of a currency crisis, banking crisis, and fiscal crisis. The particular form that this took in the United States was, of course, the enormous deregulation of the 1990s.

The irony is that the current economic team in charge of stabilizing the U.S. economy is the same group of people who were in charge of these policies during the 1990s. I do not say that to disparage them. It is merely a statement of fact. I have no problem at all with them changing their minds. Larry Summers and Tim Geithner and others have changed their minds. That is what they say, and I believe them, but these incredibly influential, smart, experienced people bought into this myth of the

genius of finance in the 1990s, and the resulting policies mattered. This is what the United States did to itself and, by implication, to the rest of the world.

What breaks this kind of crisis? What breaks a crisis that has been built around this concentration of political and economic power? Some of the powerful groups—we can call them oligarchs; we can call them something else—fail or lose their businesses. In an emerging-market context, there typically are not enough resources to bail them all out. The International Monetary Fund (IMF) may get involved, which comes with mixed publicity, but its involvement often is helpful. We can talk about that, particularly when the IMF diagnosis focuses on the oligarchs and on strategies to contain the rent seeking of the oligarchs. Of course, the United States is different. For one thing, the IMF will not be called in. I can assure you of that. Second, the dollar is a reserve currency, and it has enormous fiscal capacity; it is the borrower of first resort or the place where investors park their money when the world hits difficult times. So the United States has enough resources to bail out much of big finance, though not all of it, and this resembles the kinds of bailouts we saw in Japan in the 1990s, particularly if the fiscal stimulus effects are included. The government has enough resources to create a temporary system of rents that can be distributed to these banks going forward.

Have the bankers won? They have, at least in the short term. There will be an economic recovery. An economy the size of the United States and with a degree of flexibility and diversification does recover, and the crisis strengthens those bankers who remain. Jamie Dimon, who is the chief executive officer of JP Morgan-Chase, which is now the largest bank by far in the United States and remains independent of state supervision, said to his annual meeting of shareholders a couple of weeks ago that they had probably seen their best year ever. That was 2008. That was the global financial crisis from the perspective of JP Morgan. The top three U.S. banks now control about 30 percent of all deposits, up from about 20 percent two years ago and up from around 10 percent perhaps five or six years ago.

Over the longer term, I am not so sure the bankers have won. In fact, I think they probably have not, in part because there will be a lot of overgrazing. The bankers cannot hold back. They cannot refrain from paying themselves large amounts of money or from engaging in egregious compensation schemes and other things that will greatly alienate and antagonize people. There is much more public scrutiny of excess. People are watching for errors, and they will find them. This kind of growth is unlikely to prove sustainable. A banking system like this is going to be volatile. Other powerful groups are very unhappy. The calls for reform are getting louder.

The official view is that it is just the populace, me, and some of my friends versus the bankers and the people who run the country. We are tilting at windmills. But this is not true. I talk to people around the United States all the time about this. I engage with people through the Internet and through the regular media, and I can tell you that most people in the United States who have thought about this for more than five minutes are extremely upset by the current situation, not just by what occurred before 2007, not just by the way things were mishandled in 2000 to 2008. They are upset about what is happening right now.

This is particularly true among the people who run small banks. Small banks are allowed to fail. The Federal Deposit Insurance Corporation (FDIC) has taken over at least 30 banks so far this year. Perhaps they have taken over even more. Small banks fail with some regularity. The United States is world class at liquidating small banks, and small banks are very upset with these large banks that have been deemed too big to fail. Venture capital is very antagonized by this. I spoke to a large technology conference of venture capitalists and entrepreneurs in March of 2009, and I said to them what I just said to you. They did not sit there quietly, as you are sitting there quietly. They were very agitated even before I arrived on the scene. Private equity, which is an important political power within finance in the United States, is deeply antagonized by the way the large commercial investment banks have behaved. Private equity could go either way. They are fairly flexible in political terms, but I see potential for them to join, in some form, a coalition of people who would like to change the system, not just the financial system. Most people are beginning to be or are already quite upset about this situation.

Why am I making all this fuss? Why can't we just hold our noses and put more money into the financial sector and continue with what we have been doing? I see a couple of problems with that. First of all, financial innovation, or so-called innovation, has been very harmful to consumers. Most financial innovation since the 1970s has not been like nonfinancial innovation. I believe that some form of greater consumer protection is coming to the United States, probably in the form of a new agency that will focus on protecting consumers against dangerous financial products. I do not think that will be an easy or a quick fix, but it is going to happen. This is going to limit the ability of the financial sector to take advantage of consumers. At the same time, banks have found that they are too big to fail, and this moral hazard is going to affect their behavior. JP Morgan-Chase may well have been a well-managed bank in this crisis, and the risk culture of JP Morgan is applauded by many. The leadership of Jamie Dimon is particularly applauded by people in power, and I have no problem at all with the individual. I am sure that he is brilliant and far-seeing and cautious, but you cannot build a banking system around a couple of guys who are sensible and did not get carried away in a boom. You have to have a system. The system of incentives is, very clearly, that if you take large enough risks and fail in a sufficiently synchronized manner, you will be bailed out. The government has blinked; to my mind and to the mind of almost all the independent observers and analysts who have looked at this, nothing in the government's reform package is going to change these incentives substantially.

The real reason that reflated finance is not going to save the day is that finance is already very large. It is unsustainably large, and its share of corporate profits and of total compensation is extraordinarily high and hard to sustain. In addition, the share of talent that goes into this sector is breathtaking. Claudia Goldin and Larry Katz have a very interesting project, titled "Harvard and Beyond," looking at what has happened to Harvard graduates. As an MIT professor, I am happy to pick on Harvard, although I do so only because we have the data. Since the beginning of their data, Harvard graduates have gone increasingly into finance. Basically, before 1990

between 5 and 15 percent of Harvard graduates went into finance. Since 1990, the percentage has doubled to perhaps 20 to 25 percent. The education elites have gone increasingly into finance. (See Johnson and Kwak 2010 for a longer discussion and the full reference.)

The second issue pertains to profits in the U.S. financial sector. Larry Summers now says that when we saw financial sector profits as a share of total domestic profits hit 40 percent in 2003, we should have taken that as a warning sign. I agree with that. It is very hard to imagine financial sector profits higher than they were in the 1980s.

The third issue is U.S. financial sector compensation. Up until the 1980s, compensation was roughly the same in the financial sector as in all private industries. You got paid the same in banking and finance through 1980 as you did in other sectors. The compensation of financial engineers and nonfinancial engineers was roughly comparable, for example. That changed in the 1980s. If you went to work in finance, you increasingly got a premium. Ariell Reshef and Thomas Philippon have done some very nice work on the origins of this (Philippon and Reshef 2009). They argue, I think persuasively, that compensation in the financial sector was high prior to the 1930s, but the 1930s regulations of the Glass-Steagall Act, the Securities Act, the Securities Exchange Act, and so on pushed down compensation in the banking system. Banking became boring. This is Paul Krugman's phrase, and it is a very good phrase. Banking was boring and not well compensated in the 1950s, 1960s, and 1970s. In the 1980s, deregulation removed interest rate ceilings, among other things. The first wave of deregulation occurred from 1980 to 1984, and a second occurred in the 1990s under the supervision of Robert Rubin, Larry Summers, and other people who are now back at the Treasury and the White House. Compensation rose, and, of course, this is part of political power and the origin of campaign contributions. This is the origin of cultural capital. This is why finance was sexy, to use a technical term. People wanted to go into finance. It seemed to have won and to have prevailed. It pulled a large chunk of the educational elite, including professors at business schools, into the financial sector. It did so in this remarkable, hard-to-sustain pattern. Thomas Philippon, for example, who offers an articulate defense of the financial sector, and James Surowiecki, who is a popular writer in *The New Yorker,* argue that compensation will decline as a percentage of GDP, to reach levels in the mid-1990s. (See Johnson and Kwak 2010 for a full discussion.) Finance plus insurance as a percentage of GDP has basically tripled in the United States since the end of World War II. They say that finance will give up 1 or maybe 2 percentage points of GDP. That is a big contraction. That is not a reflated financial bubble. And that opinion comes from the defenders of finance.

Something else is strange about this picture. Let us look at the well-known story of agriculture as a percentage of GDP. Technological innovation means that a staple good—food and everything related to agriculture—is produced using far fewer resources, particularly less labor, and is shrinking as a percentage of GDP. If finance is so wonderful and so innovative and so productivity enhancing, why does it go up as a percentage of GDP so consistently?

I have picked on the United States rather a lot, in part to be provocative and in part because the crisis started in the United States. The rise of finance and the victory of finance are an American phenomenon, but, unfortunately, the intellectual capture by finance is not peculiar to the United States. If this were just about the United States, the United States would have a big problem. The world economy would have a serious issue, but we would not have a global crisis. We have a global crisis because Western Europe bought into this story and the myth of the financial sector perhaps even more than the United States did. The United States has banks that are too big to fail—at least that is what the Federal Reserve thinks and what the Treasury thinks. Western Europe also has banks that are too big to fail, but it may also have banks that are too big to rescue. Western European banks are much larger than U.S. banks as a percentage of the economy. The largest banks in the United States peaked at a total balance sheet of 20 percent of GDP. The largest bank in the United Kingdom—the Royal Bank of Scotland—had a balance sheet at its peak of more than 100 percent of GDP. That is just one bank. That is just one failed bank that has been bailed out. Finance as a share of GDP has increased consistently across developed countries. This observation is based on data used by the Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements. These data suffer from definitional problems, but they show the general pattern of an increase in the contribution of finance to GDP.

The OECD also calculates something called the excess credit level, which has its own methodological issues, but which conveys the deviation from the long-term trend of domestic bank lending to the private nonfinancial sectors as a share of GDP. Once again, something happened in the late 1990s: excess credit increased in the United States and in the euro area. Iceland, of course, stands out as extraordinarily irresponsible, with total bank assets around 11 or 12 times GDP; according to the same data, total bank assets are six times GDP in the United Kingdom and eight times GDP in Switzerland. It does not matter how you cut the data, the story is the same. The United States has had a big increase in financial sector problems and in the vulnerabilities that have built up because of the financial sector, but it has not had a big increase in bank assets as a percentage of GDP. That has happened in Switzerland, in the United Kingdom, in Ireland, and in some other Western European countries.

Who is responsible for the global crisis? Of course, the answer is complex, and there are many proximal causes. We can talk about housing. We can talk about the overexpansion of credit. We can talk about excessive risk taking by financial institutions. All of those explanations are, in some sense, right, but we need to look at the deeper cause. We can call it a meta bubble, or we can call it the new oligarchs. It is the rise of the financial sector in the United States and in Europe since 1980.

Should we care that finance has become so big that it has changed the nature of politics? Well, institutions matter. Weaker institutions do not prevent growth, but they make it very hard to sustain growth. They make it easy to enter a Latin American pattern of growth, boom, bust, and lost decades. Weak institutions give rise to more frequent crises, more severe crises, and derailed growth.

I am talking here about the United States, which is not on the periphery of the world's financial system. It is right in the middle. Addressing this problem will dominate all other considerations of whether or not the world can grow and whether or not the World Bank can help to reduce poverty around the world. This swamps everything. If this goes wrong, if we do not disengage from finance, if we do not find a way to disintermediate, we can say goodbye to moderation and hello to instability. The costs will be felt in the United States in the form of higher taxes, slower growth, and perhaps more inequality. The costs outside the United States will be much more damaging. They will be felt in higher poverty, shorter life expectancy, and perhaps higher inflation. Maybe this is the great fail-safe, the escape hatch. There is plenty to suggest that the U.S. strategy is moving in this direction, although, of course, the officials deny this vehemently. However, I think that it is true, and the financial markets think so do.

If you are moving into a much more emerging-market structure of the economy, then you can have a lot of inflation. The standard macroeconomic models say, "There will be no inflation until 2010 or 2011." Standard macroeconomics also said that we could not have the kind of global crisis—with the collapse of output and the massive decline in world trade—that we have had over the past 18 months. So it is not clear that those standard models are adequate to explain the situation.

Many people do not agree with my perspective. David Brooks, a well-known newspaper columnist in the United States, has offered the most interesting counterarguments. He has said, "Simon Johnson is wrong. The banks are not super smart or conspiring." I do not say that the banks are conspiring or that they are super smart. I do say that we built this system and that bankers have taken over the political system and acquired a tremendous amount of power. In fact, they are really stupid. If the banks are so stupid that they cannot manage the risks that they take on, then why do we allow banks that are too big to fail to remain? The economic solution is very easy, but the political solution is very hard. Breaking up the trusts in 1901 was very hard politically, too. But we need banks that are small enough to fail. We need to break up the big banks in the United States and elsewhere. If they can fail, that is fine. If they cannot fail, if the government has to come in and bail them out one way or another, that is very dangerous.

Another view says that the experts who built the system are needed to solve the problems. That may be true, but do you really want to leave a system in place where the next time the equivalent of AIG's financial products fails you have to keep these people on with million-dollar retention bonuses because they are the only guys who know how to unwind those trades? That is not acceptable to me. A consumer protection agency is going to help, but only a bit. The financial sector can get itself into trouble in many ways, even without taking advantage of unsuspecting consumers.

The strongest pushback I get from this view is from people who say that I misunderstand what the Obama administration is doing. They say that it is not captured by an oligarchy and that it will implement reform. The most extraordinary and alarming argument that I hear from a few people is that we should not make this argument at all; we should not study the nature and the workings of political con-

nections in the United States because nothing good will come of it. I have heard that we technocrats should stick together and stick with big finance. I do not agree. I do not think that it is good economics. I do not think that it is good politics. I do not think that it is good for the U.S. economy. I do not think that it is good for the world economy.

I am a professor of entrepreneurship at MIT. I spend a lot of time talking to entrepreneurs and venture capitalists. I am not a far-left radical. I am not a far-right radical either. I am a complete centrist, and I work with entrepreneurs in the United States and around the world. My view, and the view of the venture capital sector and the view of the powerful people in that sector, is that crazy investment banking—speculative financial markets—is in no way essential, helpful, or constructive at this point to what is needed for innovation and growth in the United States and more broadly. The major risk to innovation and growth in the United States and elsewhere in the world has always come from a rent-seeking sector. The name of this sector changes from time to time. It is not the railroad barons anymore. It is big finance. We are in a cycle, and the cycle is one of problem and reform, but reform takes a while. Break up the big banks, make them small enough to fail, preferably do it sooner rather than later, or we will all face the consequences.

In conclusion, my simple, straightforward, and provocative message is that there has been a rise of finance capital and political power in the United States since the 1980s. This has repeated a historical pattern seen in the United States before. It is common in the long booms that have been frequent in U.S. history. It is also very familiar in emerging markets. There are parallels or tagalongs in other industrial countries, including much of Western Europe, and it is important to keep in mind that having a crisis, by itself, solves nothing. The surviving oligarchs become stronger. Their intellectual market share, if you like, goes up.

Will the twenty-first century turn out to be a great deal like the end of the nineteenth century and the beginning of the twentieth century, with a big argument about what needs to be done to deconcentrate economic and political power in the United States? I think that the answer is yes. I think that we will experience a recovery and that the world economy will stabilize and turn around. Growth may return to reasonable levels quite quickly, depending on the ultimate extent of damage to people's balance sheets and to consumer and investor confidence. But that is not the end of the crisis. That is not the end of the discussion. That is not the end of vulnerability. If recovery is just around the corner, so is another crisis, which could cost 40 percent of GDP or more in the United States in terms of additional debt. Perhaps the level of U.S. debt will go from 80 to 120 percent of GDP. Perhaps we can afford that. It seems like a waste to me, and it seems as though such levels would prevent President Obama from undertaking many sensible initiatives, but that may be what we are facing.

The point I would leave you with is that whatever happens in the United States, whatever the costs in the United States, whatever the damage done by the United States to itself and its own people with this kind of rent-seeking, overly powerful financial sector, the damage to the rest of the world, to ordinary people trying to

make their way in the modern globalized world, will be much greater. Unless we deal with this problem soon and effectively, the consequences could be dire.

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