

# CAPITALIST FOOLS

Behind the debate over remaking U.S. financial policy will be a debate over who's to blame. It's crucial to get the history right, writes a Nobel-laureate economist, identifying five key mistakes—under Reagan, Clinton, and Bush II—and one national delusion

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here will come a moment when the most urgent threats posed by the credit crisis have eased and the larger task before us will be to chart a direction for the economic steps ahead. This will

BY JOSEPH E. STIGLITZ

be a dangerous moment. Behind the debates over future policy is a debate over history—a debate over the causes of our current situation. The battle for the past will determine the battle for the present. So it's crucial to get the history straight.

What were the critical decisions that led to the crisis? Mistakes were made at every fork in the road—we had what engineers call a "system failure," when not a single decision but a cascade of decisions produce a tragic result. Let's look at five key moments.

#### No. 1: Firing the Chairman

In 1987 the Reagan administration decided to remove Paul Volcker as chairman of the Federal Reserve Board and appoint Alan Greenspan in his place. Volcker had done what central bankers are supposed to do. On his watch, inflation had been brought down from more than 11 percent to under 4 percent. In the world of central banking, that should have earned him a grade of A+++ and assured his re-appointment. But Volcker also understood that financial markets need to be regulated. Reagan wanted someone who did not believe any such thing, and he found him in a devotee of the objectivist philosopher and free-market zealot Ayn Rand.

Greenspan played a double role. The Fed controls the money spigot, and in the early years of this decade, he turned it on full force. But the Fed is also a regulator. If you appoint an anti-regulator as your enforcer, you know what kind of enforcement you'll get. A flood of liquidity combined with the failed levees of regulation proved disastrous.

Greenspan presided over not one but two financial bubbles. After the high-tech bubble popped, in 2000–2001, he helped inflate the housing bubble. The first responsibility of a central bank should be to maintain the stability of the financial system. If banks lend on the basis of artificially high asset prices, the result can be a meltdown—as we are seeing now, and as Greenspan should have known. He had many of the tools he needed to cope with the situation. To deal with the high-tech bubble, he could have increased margin requirements (the amount of cash people need to put down to buy stock). To deflate the housing bubble, he could have curbed predatory lending to low-income households and prohibited other insidious practices (the no-documentation—or "liar"—loans, the interest-only loans, and so on). This would have gone a long way toward protecting us. If he didn't have the tools, he could have gone to Congress and asked for them.

Of course, the current problems with our financial system are not solely the result of bad lending. The banks have made mega-bets with one another through com-

**FINDING FAULT**  
Treasury Secretary Henry Paulson and former Federal Reserve Board chairman Alan Greenspan bookend two decades of economic missteps.



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plicated instruments such as derivatives, credit-default swaps, and so forth. With these, one party pays another if certain events happen—for instance, if Bear Stearns goes bankrupt, or if the dollar soars. These instruments were originally created to help manage risk—but they can also be used to gamble. Thus, if you felt confident that the dollar was going to fall, you could make a big bet accordingly, and if the dollar indeed fell, your profits would soar. The problem is that, with this complicated intertwining of bets of great magnitude, no one could be sure of the financial position of anyone else—or even of one's own position. Not surprisingly, the credit markets froze.

Here too Greenspan played a role. When I was chairman of the Council of Economic Advisers, during the Clinton administra-

it had one, feel pressure to lend it money, perhaps unwisely? An ensuing spiral of bad judgment is not hard to foresee. I had opposed repeal of Glass-Steagall. The proponents said, in effect, Trust us: we will create Chinese walls to make sure that the problems of the past do not recur. As an economist, I certainly possessed a healthy degree of trust, trust in the power of economic incentives to bend human behavior toward self-interest—toward short-term self-interest, at any rate, rather than Tocqueville's "self-interest rightly understood."

The most important consequence of the repeal of Glass-Steagall was indirect—it lay in the way repeal changed an entire culture. Commercial banks are not supposed to be high-risk ventures; they are supposed to manage other people's money very con-

Commodity Futures Trading Commission, Brooksley Born, had called for such regulation—a concern that took on urgency after the Fed, in that same year, engineered the bailout of Long-Term Capital Management, a hedge fund whose trillion-dollar-plus failure threatened global financial markets. But Secretary of the Treasury Robert Rubin, his deputy, Larry Summers, and Greenspan were adamant—and successful—in their opposition. Nothing was done.

#### No. 3: Applying the Leeches

**T**hen along came the Bush tax cuts, enacted first on June 7, 2001, with a follow-on installment two years later. The president and his advisers seemed to believe that tax cuts, especially for upper-income Americans and corporations, were

## FEDERAL RESERVE CHAIRMAN PAUL VOLCKER UNDERSTOOD THAT MARKETS NEED TO BE REGULATED. REAGAN WANTED SOMEONE ELSE. HE FOUND A DEVOTEE OF FREE-MARKET ZEALOT AYN RAND.

tion, I served on a committee of all the major federal financial regulators, a group that included Greenspan and Treasury Secretary Robert Rubin. Even then, it was clear that derivatives posed a danger. We didn't put it as memorably as Warren Buffett—who saw derivatives as "financial weapons of mass destruction"—but we took his point. And yet, for all the risk, the deregulators in charge of the financial system—at the Fed, at the Securities and Exchange Commission, and elsewhere—decided to do nothing, worried that any action might interfere with "innovation" in the financial system. But innovation, like "change," has no inherent value. It can be bad (the "liar" loans are a good example) as well as good.

#### No. 2: Tearing Down the Walls

**T**he deregulation philosophy would pay unwelcome dividends for years to come.

In November 1999, Congress repealed the Glass-Steagall Act—the culmination of a \$300 million lobbying effort by the banking and financial-services industries, and spearheaded in Congress by Senator Phil Gramm. Glass-Steagall had long separated commercial banks (which lend money) and investment banks (which organize the sale of bonds and equities); it had been enacted in the aftermath of the Great Depression and was meant to curb the excesses of that era, including grave conflicts of interest. For instance, without separation, if a company whose shares had been issued by an investment bank, with its strong endorsement, got into trouble, wouldn't its commercial arm, if

servatively. It is with this understanding that the government agrees to pick up the tab should they fail. Investment banks, on the other hand, have traditionally managed rich people's money—people who can take bigger risks in order to get bigger returns. When repeal of Glass-Steagall brought investment and commercial banks together, the investment-bank culture came out on top. There was a demand for the kind of high returns that could be obtained only through high leverage and big risktaking.

There were other important steps down the deregulatory path. One was the decision in April 2004 by the Securities and Exchange Commission, at a meeting attended by virtually no one and largely overlooked at the time, to allow big investment banks to increase their debt-to-capital ratio (from 12:1 to 30:1, or higher) so that they could buy more mortgage-backed securities, inflating the housing bubble in the process. In agreeing to this measure, the S.E.C. argued for the virtues of self-regulation: the peculiar notion that banks can effectively police themselves. Self-regulation is preposterous, as even Alan Greenspan now concedes, and as a practical matter it can't, in any case, identify systemic risks—the kinds of risks that arise when, for instance, the models used by each of the banks to manage their portfolios tell all the banks to sell some security all at once.

As we stripped back the old regulations, we did nothing to address the new challenges posed by 21st-century markets. The most important challenge was that posed by derivatives. In 1998 the head of the

a cure-all for any economic disease—the modern-day equivalent of leeches. The tax cuts played a pivotal role in shaping the background conditions of the current crisis. Because they did very little to stimulate the economy, real stimulation was left to the Fed, which took up the task with unprecedented low-interest rates and liquidity. The war in Iraq made matters worse, because it led to soaring oil prices. With America so dependent on oil imports, we had to spend several hundred billion more to purchase oil—money that otherwise would have been spent on American goods. Normally this would have led to an economic slowdown, as it had in the 1970s. But the Fed met the challenge in the most myopic way imaginable. The flood of liquidity made money readily available in mortgage markets, even to those who would normally not be able to borrow. And, yes, this succeeded in forestalling an economic downturn; America's household saving rate plummeted to zero. But it should have been clear that we were living on borrowed money and borrowed time.

The cut in the tax rate on capital gains contributed to the crisis in another way. It was a decision that turned on values: those who speculated (read: gambled) and won were taxed more lightly than wage earners who simply worked hard. But more than that, the decision encouraged leveraging, because interest was tax-deductible. If, for instance, you borrowed a million to buy a home or took a \$100,000 home-equity loan to buy stock, the interest would be fully deductible every year. Any capital gains

you made were taxed lightly—and at some possibly remote day in the future. The Bush administration was providing an open invitation to excessive borrowing and lending—not that American consumers needed any more encouragement.

#### No. 4: Faking the Numbers

**M**eanwhile, on July 30, 2002, in the wake of a series of major scandals—notably the collapse of WorldCom and Enron—Congress passed the Sarbanes-Oxley Act. The scandals had involved every major American accounting firm, most of our banks, and some of our premier companies, and made it clear that we had serious problems with our accounting system. Accounting is a sleep-inducing topic for most people, but if you can't have faith in a company's numbers, then you can't have faith in anything about a company at all. Unfortunately, in the negotiations over what became Sarbanes-Oxley a decision was made not to deal with what many, including the respected former head of the S.E.C. Arthur Levitt, believed to be a fundamental underlying problem: stock options. Stock options have been defended as providing healthy incentives toward good management, but in fact they are “incentive pay” in name only. If a company does well, the C.E.O. gets great rewards in the form of stock options; if a company does poorly, the compensation

facilitated a rush of money into the region, and then a sudden reversal in the ratings brought devastation. But the financial overseers paid no attention.

#### No. 5: Letting It Bleed

**T**he final turning point came with the passage of a bailout package on October 3, 2008—that is, with the administration’s response to the crisis itself. We will be feeling the consequences for years to come. Both the administration and the Fed had long been driven by wishful thinking, hoping that the bad news was just a blip, and that a return to growth was just around the corner. As America’s banks faced collapse, the administration veered from one course of action to another. Some institutions (Bear Stearns, A.I.G., Fannie Mae, Freddie Mac) were bailed out. Lehman Brothers was not. Some shareholders got something back. Others did not.

The original proposal by Treasury Secretary Henry Paulson, a three-page document that would have provided \$700 billion for the secretary to spend at his sole discretion, without oversight or judicial review, was an act of extraordinary arrogance. He sold the program as necessary to restore confidence. But it didn’t address the underlying reasons for the loss of confidence. The banks had made too many bad loans. There were big holes in their balance sheets. No one knew what

it was hard to see how that could continue. Meanwhile, states faced massive drop-offs in revenues—they would have to cut back on expenditures. Without quick action by government, the economy faced a downturn. And even if banks had lent wisely—which they hadn’t—the downturn was sure to mean an increase in bad debts, further weakening the struggling financial sector.

The administration talked about confidence building, but what it delivered was actually a confidence trick. If the administration had really wanted to restore confidence in the financial system, it would have begun by addressing the underlying problems—the flawed incentive structures and the inadequate regulatory system.

**W**as there any single decision which, had it been reversed, would have changed the course of history? Every decision—including decisions not to do something, as many of our bad economic decisions have been—is a consequence of prior decisions, an interlinked web stretching from the distant past into the future. You’ll hear some on the right point to certain actions by the government itself—such as the Community Reinvestment Act, which requires banks to make mortgage money available in low-income neighborhoods. (Defaults on C.R.A. lending were actually much lower than on other lending.) There

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is almost as substantial but is bestowed in other ways. This is bad enough. But a collateral problem with stock options is that they provide incentives for bad accounting: top management has every incentive to provide distorted information in order to pump up share prices.

The incentive structure of the rating agencies also proved perverse. Agencies such as Moody’s and Standard & Poor’s are paid by the very people they are supposed to grade. As a result, they’ve had every reason to give companies high ratings, in a financial version of what college professors know as grade inflation. The rating agencies, like the investment banks that were paying them, believed in financial alchemy—that F-rated toxic mortgages could be converted into products that were safe enough to be held by commercial banks and pension funds. We had seen this same failure of the rating agencies during the East Asia crisis of the 1990s: high ratings

was truth and what was fiction. The bailout package was like a massive transfusion to a patient suffering from internal bleeding—and nothing was being done about the source of the problem, namely all those foreclosures. Valuable time was wasted as Paulson pushed his own plan, “cash for trash,” buying up the bad assets and putting the risk onto American taxpayers. When he finally abandoned it, providing banks with money they needed, he did it in a way that not only cheated America’s taxpayers but failed to ensure that the banks would use the money to re-start lending. He even allowed the banks to pour out money to their shareholders as taxpayers were pouring money into the banks.

The other problem not addressed involved the looming weaknesses in the economy. The economy had been sustained by excessive borrowing. That game was up. As consumption contracted, exports kept the economy going, but with the dollar strengthening and Europe and the rest of the world declining,

has been much finger-pointing at Fannie Mae and Freddie Mac, the two huge mortgage lenders, which were originally government-owned. But in fact they came late to the sub-prime game, and their problem was similar to that of the private sector: their C.E.O.’s had the same perverse incentive to indulge in gambling.

The truth is most of the individual mistakes boil down to just one: a belief that markets are self-adjusting and that the role of government should be minimal. Looking back at that belief during hearings this fall on Capitol Hill, Alan Greenspan said out loud, “I have found a flaw.” Congressman Henry Waxman pushed him, responding, “In other words, you found that your view of the world, your ideology, was not right; it was not working.” “Absolutely, precisely,” Greenspan said. The embrace by America—and much of the rest of the world—of this flawed economic philosophy made it inevitable that we would eventually arrive at the place we are today. □



The Four Horsemen of the Wall St. Apocalypse

# WALL STREET'S TOXIC MESSAGE

When the current crisis is over, the reputation of American-style capitalism will have taken a beating—not least because of the gap between what Washington practices and what it preaches. Disillusioned developing nations may well turn their backs on the free market, warns Nobel laureate JOSEPH E. STIGLITZ, posing new threats to global stability and U.S. security

**E**very crisis comes to an end—and, bleak as things seem now, the current economic crisis too shall pass. But no crisis, especially one of this severity, recedes without leaving a legacy. And among this one's legacies will be a worldwide battle over ideas—over what kind of economic system is likely to deliver the greatest benefit to the most people. Nowhere is that battle raging more hotly than in the Third World, among the 80 percent of the world's population that lives in Asia, Latin America, and Africa, 1.4 billion of whom subsist on less than \$1.25 a day. In America, calling someone a socialist may be nothing more than a cheap shot. In much of the world, however, the battle between capitalism and socialism—or at least something that many Americans would label as socialism—still rages. While there may be no winners in the current economic crisis, there are losers, and among the big losers is support for American-style capitalism. This has consequences we'll be living with for a long time to come.

The fall of the Berlin Wall, in 1989, marked the end of Communism as a viable idea. Yes, the problems with Communism had been manifest for decades. But after 1989 it was hard for anyone to say a word in its defense. For a while, it seemed that the defeat of

Communism meant the sure victory of capitalism, particularly in its American form. Francis Fukuyama went as far as to proclaim “the end of history,” defining democratic market capitalism as the final stage of social development, and declaring that all humanity was now heading in this direction. In truth, historians will mark the 20 years since 1989 as the short period of American triumphalism. With the collapse of great banks and financial houses, and the ensuing economic turmoil and chaotic attempts at rescue, that period is over. So, too, is the debate over “market fundamentalism,” the notion that unfettered markets, all by themselves, can ensure economic prosperity and growth. Today only the deluded would argue that markets are self-correcting or that we can rely on the self-interested behavior of market participants to guarantee that everything works honestly and properly.

**T**he economic debate takes on particular potency in the developing world. Although we in the West tend to forget, 190 years ago one-third of the world's gross domestic product was in China. But then, rather suddenly, colonial exploitation and unfair trade agreements, combined with a technological revolution in Europe and America, left the developing countries far behind, to the point where, by 1950, China's

economy constituted less than 5 percent of the world's G.D.P. In the mid-19th century the United Kingdom and France actually waged a war to open China to global trade. This was the Second Opium War, so named because the West had little of value to sell to China other than drugs, which it had been dumping into Chinese markets, with the collateral effect of causing widespread addiction. It was an early attempt by the West to correct a balance-of-payments problem.

Colonialism left a mixed legacy in the developing world—but one clear result was the view among people there that they had been cruelly exploited. Among many emerging leaders, Marxist theory provided an interpretation of their experience; it suggested that exploitation was in fact the underpinning of the capitalist system. The political independence that came to scores of colonies after World War II did not put an end to economic colonialism. In some regions, such as Africa, the exploitation—the extraction of natural resources and the rape of the environment, all in return for a pittance—was obvious. Elsewhere it was more subtle. In many parts of the world, global institutions such as the International Monetary Fund and the World Bank came to be seen as instruments of post-colonial control. These institutions pushed market fundamentalism (“neoliberalism,” it was often called), a notion idealized by

suppressing the development of entrepreneurial talent. While capital flowed freely, labor did not—except in the case of the most talented individuals, who found good jobs in a global marketplace.

This picture is, obviously, painted with too broad a brush. There were always those in Asia who resisted the Washington consensus. They put restrictions on capital flows. The giants of Asia—China and India—managed their economies their own way, producing unprecedented growth. But elsewhere, and especially in the countries where the World Bank and the I.M.F. held sway, things did not go well.

And everywhere, the debate over ideas continued. Even in countries that have done very well, there is a conviction among the educated and influential that the rules of the game have not been fair. They believe that they have done well *despite* the unfair rules, and they sympathize with their weaker friends in the developing world who have not done well at all.

Among critics of American-style capitalism in the Third World, the way that America has responded to the current economic crisis has been the last straw. During the East Asia crisis, just a decade ago, America and the I.M.F. demanded that the affected countries cut their deficits by cutting back expenditures—even if, as in Thai-

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Americans as “free and unfettered markets.” They pressed for financial-sector deregulation, privatization, and trade liberalization.

The World Bank and the I.M.F. said they were doing all this for the benefit of the developing world. They were backed up by teams of free-market economists, many from that cathedral of free-market economics, the University of Chicago. In the end, the programs of “the Chicago boys” didn’t bring the promised results. Incomes stagnated. Where there was growth, the wealth went to those at the top. Economic crises in individual countries became ever more frequent—there have been more than a hundred severe ones in the past 30 years alone.

Not surprisingly, people in developing countries became less and less convinced that Western help was motivated by altruism. They suspected that the free-market rhetoric—“the Washington consensus,” as it is known in shorthand—was just a cover for the old commercial interests. Suspicions were reinforced by the West’s own hypocrisy. Europe and America didn’t open up their own markets to the agricultural produce of the Third World, which was often all these poor countries had to offer. They forced developing countries to eliminate subsidies aimed at creating new industries, even as they provided massive subsidies to their own farmers.

Free-market ideology turned out to be an excuse for new forms of exploitation. “Privatization” meant that foreigners could buy mines and oil fields in developing countries at low prices. It meant they could reap large profits from monopolies and quasi-monopolies, such as in telecommunications. “Liberalization” meant that they could get high returns on their loans—and when loans went bad, the I.M.F. forced the socialization of the losses, meaning that the screws were put on entire populations to pay the banks back. It meant, too, that foreign firms could wipe out nascent industries,

land, this contributed to a resurgence of the AIDS epidemic, or even if, as in Indonesia, this meant curtailing food subsidies for the starving. America and the I.M.F. forced countries to raise interest rates, in some cases to more than 50 percent. They lectured Indonesia about being tough on its banks—and demanded that the government not bail them out. What a terrible precedent this would set, they said, and what a terrible intervention in the Swiss-clock mechanisms of the free market.

The contrast between the handling of the East Asia crisis and the American crisis is stark and has not gone unnoticed. To pull America out of the hole, we are now witnessing massive increases in spending and massive deficits, even as interest rates have been brought down to zero. Banks are being bailed out right and left. Some of the same officials in Washington who dealt with the East Asia crisis are now managing the response to the American crisis. Why, people in the Third World ask, is the United States administering different medicine to itself?

Many in the developing world still smart from the hectoring they received for so many years: they should adopt American institutions, follow our policies, engage in deregulation, open up their markets to American banks so they could learn “good” banking practices, and (not coincidentally) sell their firms and banks to Americans, especially at fire-sale prices during crises. Yes, Washington said, it will be painful, but in the end you will be better for it. America sent its Treasury secretaries (from both parties) around the planet to spread the word. In the eyes of many throughout the developing world, the revolving door, which allows American financial leaders to move seamlessly from Wall Street to Washington and back to Wall Street, gave them even more credibility; these men seemed to combine the power of money and the power of politics.

American financial leaders were correct in believing that what was good for America or the world was good for financial markets, but they were incorrect in thinking the converse, that what was good for Wall Street was good for America and the world.

It is not so much Schadenfreude that motivates the intense scrutiny by developing countries of America's economic failure as it is a real need to discover what kind of economic system can work for them in the future. Indeed, these countries have every interest in seeing a quick American recovery. What they know is that they themselves cannot afford to do what America has done to attempt to revive its economy. They know that even this amount of spending isn't working very fast. They know that the fallout from America's downturn has moved 200 million additional people into poverty in the span of just a few years. And they are increasingly convinced that any economic ideals America may espouse are ideals to run from rather than embrace.

**W**hy should we care that the world has become disillusioned with the American model of capitalism? The ideology that we promoted has been tarnished, but perhaps it is a good thing that it may be tarnished beyond repair. Can't we survive—even do just as well—if not everyone adheres to the American way?

To be sure, our influence will diminish, as we are less likely to be held up as a role model, but that was happening in any case. America used to play a pivotal role in global capital, because others believed that we had a special talent for managing risk and allocating financial resources. No one thinks that now, and Asia—where much of the world's saving occurs today—is already developing its own financial centers. We are no longer the chief source of capital. The world's top three banks are now Chinese. America's largest bank is down at the No. 5 spot.

The dollar has long been the reserve currency—countries held the dollar in order to back up confidence in their own currencies and governments. But it has gradually dawned on central banks around the world that the dollar may not be a good store of value. Its value has been volatile, and declining. The massive increase in America's indebtedness during the current crisis, combined with the Federal Reserve Board's massive lending, has heightened anxieties about the future of the dollar. The Chinese have openly floated the idea of inventing some new reserve currency to replace it.

Meanwhile, the cost of dealing with the crisis is crowding out other needs. We have never been generous in our assistance to poor countries. But matters are getting worse. In recent years, China's infrastructure investment in Africa has been greater than that of the World Bank and the African Development Bank combined, and it dwarfs America's. African countries are running to Beijing for assistance in this crisis, not to Washington.

But my concern here is more with the realm of ideas. I worry that, as they see more clearly the flaws in America's economic and social system, many in the developing world will draw the wrong conclusions. A few countries—and maybe America itself—will learn the right lessons. They will realize that what is required for success is a regime where the roles of market and government are in balance, and where a strong state administers effective regulations. They will realize that the power of special interests must be curbed.

But, for many other countries, the consequences will be messier, and profoundly tragic. The former Communist countries generally turned, after the dismal failure of their postwar system, to market capitalism, replacing Karl Marx with Milton Friedman as their god. The new religion has not served them well. Many

countries may conclude not simply that unfettered capitalism, American-style, has failed but that the very concept of a market economy has failed, and is indeed unworkable under any circumstances. Old-style Communism won't be back, but a variety of forms of excessive market intervention will return. And these will fail. The poor suffered under market fundamentalism—we had trickle-up economics, not trickle-down economics. But the poor will suffer again under these new regimes, which will not deliver growth. Without growth there cannot be sustainable poverty reduction. There has been no successful economy that has not relied heavily on markets. Poverty feeds disaffection. The inevitable downturns, hard to manage in any case, but especially so by governments brought to power on the basis of rage against American-style capitalism, will lead to more poverty. The consequences for global stability and American security are obvious.

There used to be a sense of shared values between America and the American-educated elites around the world. The economic crisis has now undermined the credibility of those elites. We have given critics who opposed America's licentious form of capitalism ample ammunition to preach a broader anti-market philosophy. And we keep giving them more and more ammunition. While we committed ourselves at a recent G-20 meeting not to engage in protectionism, we put a "buy American" provision into our own stimulus package. And then, to soften the opposition from our European allies, we modified that provision, in effect discriminating against only poor countries. Globalization has made us more interdependent; what happens in one part of the world affects those in another—a fact made manifest by the contagion of our economic difficulties. To solve global problems, there must be a sense of co-operation and trust, including a sense of shared values. That trust was never strong, and it is weakening by the hour.

Faith in democracy is another victim. In the developing world, people look at Washington and see a system of government that allowed Wall Street to write self-serving rules which put at risk the entire global economy—and then, when the day of reckoning came, turned to Wall Street to manage the recovery. They see continual re-distributions of wealth to the top of the pyramid, transparently at the expense of ordinary citizens. They see, in short, a fundamental problem of political accountability in the American system of democracy. After they have seen all this, it is but a short step to conclude that something is fatally wrong, and inevitably so, with democracy itself.

**T**he American economy will eventually recover, and so, too, up to a point, will our standing abroad. America was for a long time the most admired country in the world, and we are still the richest. Like it or not, our actions are subject to minute examination. Our successes are emulated. But our failures are looked upon with scorn. Which brings me back to Francis Fukuyama. He was wrong to think that the forces of liberal democracy and the market economy would inevitably triumph, and that there could be no turning back. But he was not wrong to believe that democracy and market forces are essential to a just and prosperous world. The economic crisis, created largely by America's behavior, has done more damage to these fundamental values than any totalitarian regime ever could have. Perhaps it is true that the world is heading toward the end of history, but it is now sailing against the wind, on a course we set ourselves. □

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