

## ***BOOK REVIEW***

### **FOR JOSEPH STIGLITZ THE GREAT SOCIAL DIVISION IN USA IS A VITAL ISSUE TO BE URGENTLY RESOLVED**

**(Joseph Stiglitz: *The Great Divide: Unequal Societies and What We Can Do About Them*, Publica, Bucharest, 2015)**

#### **Part I, II, III**

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#### **1. Stiglitz's ruthless criticism against American capitalism**

After two years Joseph Stiglitz returns on the matter of US social inequality, which seems to be a complex process with many causes, with a new book, in fact a collection of articles or essays published by *Vanity Fair*, *Project Syndicate* and *New York Times*. Stiglitz has identified four crucial and interconnected issues facing the developed capitalist society: the enormous social inequality, poor economic management, globalization, the role of the state and the market. Social inequality was caused by wrong macroeconomic policies, recent financial crisis, economic stagnation and globalization. The explanation for these challenges lies in the role played by the interest groups, the so-called 1% that influenced politics and that generated a poor management of economy and globalization effects. Only through the politics one may find good solutions as the markets cannot do this. Stiglitz is convinced that only a reform of democratic system for making political rulers more accountable may remove social division and ensure general prosperity.

In US although there was an economic boom in the 90's and between 2002 and 2007 the middle class has strongly declined and social inequality has continuously deepened, among other things due to a tax decrease applied by George W. Bush Administration to rich people. Stiglitz believes that inequality weakens aggregate demand, and economy and fiscal policies are the most effective instruments for strengthening the demand and improving the social equality. But improper fiscal policies may put additional pressure on monetary policies which, by cutting interest rate and relaxing regulations, try to stimulate the economy. Monetary policy managers have been market fundamentalists who underestimated the risks of their policy with the result of a speculative bubble and an unprecedented growth of inequality. In the first part of the years 2000 there was a consumerist orgy in USA, 80% of Americans spending on average 110% of their income.

Stiglitz rightly asks who is responsible for the recent financial and economic crisis (the Great Recession) and finds more actors and failures (such as risk management) outside macrostabilisation policy. Stiglitz blames the free market proponents who strangely seek help from the state during a crisis, the Republicans headed by Bush Jr. during two wars, tax cuts and huge deficits, the politicians who instead of doing public investments have accepted the deregulation and liberalization of the financial/banking sector, the deregulation activity that was started by Reagan Administration and continued by Clinton Administration that led to excessive securitization and derivatives, high risks and moral hazard, non-visionary and even fraudulent behavior of banks and rating agencies. Deregulation and liberalisation of financial markets associated with the free movement of capital have negatively affected not only USA but also emerging economies that instead of getting prosperity were hit by currency crises. Income redistribution towards financial/banking sector was made through market manipulation and through abusive practices of credit cards and loans (exaggerated commissions and interest rates). Financial sector made an effective lobby for public policies that have increased social inequality and hardly supported the free market ideology involving privatization and liberalisation,

limited progressive taxation, targeting monetary policy on inflation and not the employment rate. For Stiglitz in transparent and competitive markets profits fall to almost zero, but this cannot happen if the government has become the prisoner of corporations, especially of financial ones. Some economists are guilty of what happened in the financial sector, as they supported the idea that markets are self-regulating. Dodd Frank Act was meant to reform the financial sector but encouraged the merging of banks and the concentration of capital instead of solving the problem of too big to fail and to attenuate the risk of derivatives. Stiglitz mentions the documentary film „Inside Job” that rises the question whether economists' opinions are not influenced by the rewards of financial sector: consulting contracts, fellowships and others stimulants.

Stiglitz is very critical at the reactions to financial crisis of Bush and Obama Administrations. After an extremely costly rescue of Bear Stearns investment bank, the collapse of Lehman Brothers in September 2008 was accepted for giving a harsh lesson to other banks, but it was followed by the salvation from insolvency of AIG, an insurance company, with a lot of public money, that passed quickly to Goldman Sachs and other banks. Stiglitz proposed a plan of measures for crisis exit and economic recovery, but what was done in the economy reflected more the interests and points of view of banks and of the 1% group. Maybe it is true that Obama Administration prevented another great economic depression but it was not able to develop a robust recovery. The loss of potential GDP is estimated at 15% and the losses of income amount to trillions of dollars. The five points plan advanced by Joseph Stiglitz included the recapitalization of banks (not further enriching the bankers), helping homeowners by stopping foreclosures (only 10 billion \$ were allocated and millions of people lost their homes), offering strong (fiscal) incentives to economy (not cutting the taxes for rich people), reform of national regulations to restore confidence and creation of a multilateral agency for coordinating global regulations. In 2015 one can see that the Great Recession has been overcome, maybe due to the policies implemented by US Administration and Fed, banking system is almost completely healed but the economy is not on the path to prosperity and its profound deficiencies are going to last for a long time.

What was happening during George W. Bush Administration may be considered a true economic nightmare: huge fiscal and current account deficits, enormous increase of public debt, unprecedented expansion of bad mortgage loans, record crude oil prices, a very low rate of the dollar. Moreover US had not invested enough in fundamental and technological research, high education, infrastructure and green energies. After a prosperity period during Clinton Administration when budget deficit was under control, capital market expanded to a great extent, middle class incomes widened noticeably, despite some mistakes and shortcomings in economic policy, it followed a dark period of Bush Administration, that cut the taxes for rich people, gave a lot of open or hidden subsidies to farmers, oil&gas companies, pharmaceutical companies, increased the military expenses, stimulated the consumer and mortgage credit race and irresponsibility of banks in lending and derivatives. After Dot-com bubble a new bubble appeared with the contribution of Fed's mistakes and also with that of the unlimited greed of bankers. Iraq war has cost the US a lot of money, by official estimates nearly \$1,000 bn., but in reality almost \$ 2.000 bn., money that could have been better spent on social security, investments in education and technology, improving infrastructure. Big winners of the war were oil companies, arms suppliers and Al Qaeda. What happened in Iraq after the war was the direct result of some great mistakes made by US Administration, such as dissolving local administration and Iraqi army. In Stiglitz's opinion the war in Iraq has led to strong rise in crude oil prices by restricting supply, although most experts consider that the very strong increase in consumption in China and India is the main cause.

USA had a contradictory position in trade policy, supporting multilateral liberalization and concluding bilateral agreements, but it applied some trade protectionism and continued to subsidize agriculture and some industries. Globalization has not only emphasized the interdependence between economies but also enhanced the risk of spreading financial and economic crises on a global scale. Nowadays US is highly dependent on financing its public debt from the contribution of great partners, such as China and Japan. Stiglitz had some

hopes that some of the damage made by Bush Administration might have been repaired by Obama Administration, mainly by better fiscal policies targeting employment and saving.

Stiglitz thinks that some fool capitalists are responsible for the financial crisis. Reagan Administration replaced Paul Volcker with Alan Greenspan as Fed Chief Governor which was a great mistake because the last one was a supporter of free markets and deregulation. Alan Greenspan was president of Fed during two financial bubbles, didn't use proper monetary instruments to prevent and counteract them, and together with Robert Rubin, Treasury Secretary, stood for deregulation and derivatives proliferation. In November 1999 US Congress abolished Glass-Steagall Act after a lobby of \$ 300 mil., in April 2004 US Securities and Exchange Commission increased the leverage (debt/equity ratio) from 12:1 to 30:1, both this Commission and Greenspan neglected the great challenges of derivatives and claimed the hoax of self-regulation for financial sector. Bush Administration cut the taxes for rich people, which did not stimulate the economy but financial speculations, let alone the aberration to tax less the speculators than those who work hard. The rise of oil price had negatively affected the consumer demand but Fed had significantly reduced the interest rates and flooded the market with liquidity that has fueled the housing bubble.

After the collapse of WorldCom and Enron the Congress adopted Sarbanes-Oxley Act. Besides the large accounting-related irregularities it came to light the inadequate stimulation of employees through stock options, excessive rewards for managers and perverse scoring system of rating agencies (depending on the level of their remuneration). The big banks, AIG and two car companies were saved with taxpayers money but support given to the real economy and especially to the driving sectors was quite weak, all resembling with an unnecessary blood transfusion to a person with internal bleeding. Most of the individual mistakes may be reduced to one: wrong vision that markets adjust themselves and the state's role should be one minimal.

Wondering who killed the American economy, Stiglitz finds more guilty persons, individuals and legal entities, such as Alan Greenspan, Robert Rubin, Bush Administration, US Treasury, US Securities and Exchange Commission, banks, investors. Other culpable factors are: poor risk management, feeble institutional management, questionable accounting practices, investors' greed, irresponsible behavior of rating agencies, credit brokers' rapacity, those responsible with market regulation and antitrust law implementation, economists that proposed unrealistic business models, supported targeting inflation instead of financial stability, promoted deregulation and liberalization which encouraged onerous practices in the financial sector. Low interest rates practiced by Fed in the last decade (and associated with tax cuts of Bush Administration) were motivated by Greenspan through high saving rates from China and the need to stimulate insufficient aggregate demand, but these rates contributed to housing bubble, have fueled a consumption boom, have reduced almost to zero the household savings, have tried to offset the negative effect of strong oil price increase. Quite strange regarding US indebtedness, caused by deficits and oil prices, it followed the way of Latin America in the 70's. Stiglitz does not agree with excessive state blaming (some intentions of state authorities were good) but he believes that politicians financed by banks and responsive to financial sector lobby should bear the blame, at least partly.

On exiting the financial crisis Stiglitz emphasized on state important role in market regulation and supervision but recognized that capitalist system does not distinguish itself by stability, on the contrary, in the last 30 years market economies have experienced over 100 crises. The combination between deregulation and low interest rates led to a new banking model based on securitization. Due to globalization, toxic credits were exported all over the world, so US recession instantly propagated to Europe and other areas. Stiglitz returns on 5-point plan that he believed Obama Administration should implement it and appreciates that there is no respect and trust in Wall Street and US President and Administration should not be influenced by *The Great Finance*. Repeatedly Stiglitz insists in his book on the best way to exit the crisis and recession, which should be done through policies from the bottom up and not from top down.

Stiglitz seems to be concerned with inequality in political rights whether any ordinary citizen may vote and is not manipulated through mass media and other means in a country where not all citizens can easily vote and

where the decision of Supreme Court of Justice in Citizens United case allows corporations to make unlimited campaign financing expenses. There is a vicious circle: economic inequality leads to political inequality which reinforces itself and in its turn amplifies economic inequality. Extreme inequality existing in USA is not even in the interest of 1% group. Very few people receive an enormous part of national income, between 20 and 25%. Chance Equality and American Dream to advance from the base to the top of pyramid is a myth and it has nothing to do with today reality.

High social inequality from USA is harmful for economic performance and there is the need for a fair income distribution and for public and fiscal policies targeting this by charging more wealthy people and increasing productive investments and employment. Inequality badly affects education and health care which negatively impact on economic growth and that is why political decisions for raising budgetary resources and a more judicious allocation of them is needed. But the rising of social inequality is a global matter, it has increased in the last decades not only in USA but also in many other countries. Inequality played as major role in so-called *Arab Spring*, actually a rebellion of youth against social inequities amid political autocracy, endemic corruption and unequal distribution of income. In 2013 at World Economic Forum in Davos social inequality have been the main subject of debate, being obvious the extension of inequality in the world, yet there are countries with relatively low levels of inequality. Countries like China and India that got high rates of economic growth have recorded a rapid increase of inequality, today there are more billionaires in China than in USA.

Stiglitz mentioned several times in his articles Thomas Piketty's book *Capital in the Twenty-First Century* published in 2013, focusing on wealth and income inequality in Europe and the US since the 18th century. The main idea of the book is that inequality is not an accident but rather a feature of capitalism that may be reversed only through state intervention and unless capitalism is reformed the democratic system will be put in danger. After the Second World War it was a period of strong economic growth when income growth was faster for those at the bottom and when a middle class was created. In the last 3 decades the richer capitalist societies have become increasingly unequal, and not close to the ideal of equality thought by Simon Kuznets. Thomas Piketty deems that by reinvesting much of the wealth of the capitalists this grows faster than the economy, especially if the interest rate is higher than GDP's growth rate. Fifty years ago Stiglitz was convinced that on the long term it would be attained equilibrium in terms of wealth and income inequality, centrifugal and centripetal forces related to inequality would eventually balance. By his analysis Thomas Piketty invalidates the law of descending rate of return to capital.

Stiglitz's explanation is connected with the role of capital gains in increasing the wealth of rich people. Economic rent is a price paid for a factor of production (such as land, labor or capital) or for temporary use of an asset or property. The benefits of monopoly power and other forms of market exploitation are also a kind of rent, and increasing inequality of income and wealth is often associated with higher rents and capital gains. When too much money is injected in an economy, as in case of quantitative easing, it may lead to an increase of stock and asset prices. But when asset prices are rising it is only a false impression that national wealth has increased, in reality the amount of assets remains the same, only there is a redistribution of income.

Asset price bubbles may raise ROE (return on equity) but their burst brings crises and recessions, avoiding them means diminishing capital gains and slowing down the continued growth of inequality. There can be policies that may lead to a lower level of inequality balance. Stiglitz calls into question the concept of economic rent hunting, especially characteristic to monopolies and other capitalist entities. The concentration of capital specific to some markets favored market dominance and monopoly rent-seeking. Capital gains have been symbolic taxed and allowed a more rapid enrichment of the wealthy people, their money being often placed in the luxury goods and tax havens. As the markets do not function properly, there is surrogate capitalism or fake capitalism and social inequality is not just an issue related to capitalist system but rather to democratic system.

Unfortunately in this system we have *socialization of losses and privatization of gains* and the slogan *the dollar and the vote*.

In the last 25 years the gap between 1% group and middle class enlarged, because the share of first and small group in national income increased from 12% to almost 25%, while its share in national wealth raised from 33% to 40%. A long time famous economists tried to justify high social inequality through theory of marginal productivity, higher incomes being associated with a higher productivity and a greater contribution to welfare. A sinister mockery is that corporate managers responsible for producing financial crisis and economic recession have received performance bonuses called retention bonuses. Instead those who contributed with extraordinary innovations to the progress of society received paltry rewards. Stiglitz avoids saying that we are dealing with a true oligarchy that has nothing in common with meritocracy and equal opportunities and has only undeserved privileges. But Stiglitz makes three important observations: expanding inequality is diminishing the chances of success, the distortions that lead to inequality, like monopoly power and preferential tax regime, undermine economic efficiency, a modern economy requires collective action, i.e. public investments in areas with spill-over effects. One may see that rich people distance themselves from ordinary people and are afraid of a strong state. It is obvious that capitalism involves inequality, though why is so much inequality in USA? Because so the 1% group wants and succeeds by getting cut taxes on capital gains, by establishing monopolies, by onerous banking practices, by having support from the politicians and justice. Stiglitz deems that inequality distorts society in many ways and in many fields and he again mentions Tocqueville and his saying: *self-interest rightly understood*, which would mean that self-interest is not contrary to the collective welfare.

Social inequality is growing and this is considered a good thing by *the right* who sees the wealth of society only in terms of the interests of the rich people, while *the left* makes calls to justice and fairness. But the rich people must care of inequality as societies characterized by great inequality do not function in an effective way, their economies are neither stable nor sustainable. Inequality diminishes the whole consumption because the high income people spend less in relation to their total income. As the money increasingly gathers at the top of society aggregate demand is declining, unemployment is rising, potential demand is decreasing. Economic rent hunting is facilitated by political system, the state offers transfers and subsidies, adopts laws easing market competition, imposes regulations meant to enrich corporation managers, and loosens the environment protection to allow swelling of corporate profits. Financial industry is the most important rent hunter not only because of speculations but also due to predatory lending practices. But rent hunting distorts resource allocations and weakens the strength of the economy, the example of the rich natural resource countries that have failed outstanding performances is quite convincing.

At the top of the social pyramid one can find economic rent hunters and not those with outstanding merits in the progress of society. It is also relevant the motivation of employees by wage size as this influences the productivity level and contributes to their welfare. What happened during and after the crisis is profoundly unjust and shows the ruthlessness and greed of corporations, they have reduced the workforce, wages, full time program to get higher profits and resorted to all sorts of subterfuges to make tax evasion. If equal opportunities slogan is not implemented in practice then it is wasted the most precious resource, the human resource. Unfortunately inequality has often limited the access to decent health services and to good schools and top universities. High education has become more and more important for the future of any individual and for the whole economy but the reduction of budgetary funds has attracted a strong increase of tuition fees and the development of an skinning system of student loans.

The lack of trust is not only a problem related to political elections but also a problem for potential investors, for bank clients, for proper working of the economy, for a good functioning of public authorities. Stiglitz gives some examples of great personalities from the past –Ford, Roosevelt, Nixon-, that have

understood the necessity of social welfare and combating social inequality. That is why for 1% group Stiglitz gives the proper advice: harden your hearts and be selfish!

For Stiglitz there are many contradictions facing USA, and country is heavily fighting with them, one being that the country is rich but has tens of millions of poor. High inequality undermines the economy and a large part of 1% group wealth is the result of exploitation (or rent hunting) under different forms of the rest 99%. USA has been a country of the middle class which eroded as the inequality has increased and affected education, health care and other social fields. While Scandinavian countries have a free education system in USA higher education became an extremely expensive luxury. In USA there are Medicaid program and Affordable Care Act meant to support the health care of the poor but the results are quite disappointing despite huge funds spent and which translate into staggering profits for pharmaceutical companies. USA should be a positive example for other countries and not vice versa, US real strength comes from its ideational influence and not from its military power. Whether it would be spent more on education it would not dissipate so much funds and resources on prisons.

Stiglitz wants a higher tax income level for the rich people (1% group) and a real taxation of corporate profits, because too many corporations evade through various methods of paying profit tax. For Stiglitz it is better to tax bad things than good ones and factors with inelastic supply, imposing a carbon tax and a financial transactions tax. Additional taxation of natural resources or the rents paid to state may contribute to the increasing of funding for public investments. Stiglitz would like a tax incentive system, corporate taxes applied for production and sales in the US, halting of anti-competition practices, higher charging of monopoly profits and economic rents, progressive taxation of all income, with no amenities for capital gains, fair deductions for the middle class.

Social inequality is a global issue and it has been debated extensively at Davos in 2013 where Joseph Stiglitz attended the meeting. He remarked the focus put in the speech of Christine Lagarde on the link between social inequality and economic instability, also the consequences of technological progress on unemployment, the inability of the private sector to generate jobs in the context of modern manufacturing processes. IMF published forecasts showed significantly higher growth rates for emerging countries than for developed ones, perhaps because the first ones have managed globalization with sufficient skill to their own benefit. There is a crisis of political leaders and global leadership, in a multipolar world with many actors and some structured bodies, as G20, trying to address and resolve, without much success, global issues, one is terrorism, another one is global warming, but as recently Paul Krugman stated terrorism will not destroy humanity despite the damages created but global warming could do it.

Industrial Revolution has resulted in sustained economic development of Europe and North America for two centuries and increased the social and economic gaps between these regions and the rest of the world. After the end of Cold War economic globalization has accelerated and welfare gap between the nations began to shrink. The rapid development of many countries, especially in Asia, has not solved the problem of income gap at the national level, everywhere there are armies of poor and one may see a significant social inequality, even in fast growing countries like China. According to a study published by Branko Milanovic 8% of world population earn 50% of global income, and 1% group has 15% and its income increased by 60% between 1988 and 2008. An OECD study published in 2011 shows that income inequality started to grow in developed countries at the end of 70's and the beginning of 80's. Very few countries were able to significantly reduce the income inequality, this is a product not just of macroeconomic forces but also of political forces. USA is not a good example because as gross GDP has increased 4 times in the last 40 years 1% group increased its share in total income to almost 1/4. The representative American earns now less than 45 years ago and that with only secondary education with 40% less. American inequality has accentuated in the last 30 years along with the reduction of taxes and loosening of financial regulations. Europe seems to follow US bad example, austerity policy has led to more social inequality, economic stagnation, high unemployment (over 27 million

unemployed). Excessive financialization explains the exponential growth of inequality, in the biggest American corporations the ratio between the salaries of managers and those of ordinary employees is 500:1. Asymmetrical globalization and capital mobility have weakened wages and working conditions in many emerging economies. A great shame is the inequality and poverty among children, a quarter of American children live in poverty, the percentage being lower in Europe but much higher in Africa, Asia and Latin America.

Stiglitz is a fan of Thomas Piketty, whose book raises fundamental questions not only concerning economic theory but also concerning the future of capitalism. Piketty also shows a massive growth of wealth/production ratio, but excess wealth originated in a high rise of the value of real estate assets. Wealth has increased especially in the financial sector for very few people but at the expense of consumers, economic efficiency and overall welfare. When wealth is growing in certain fields and salaries/incomes of middle class stagnate and inequality is growing we have a surrogate of capitalism and a tainted political system. High levels of economic inequality lead to political inequality and the chances of economic progress are becoming uneven. The continued growth in levels of inequality expected by Piketty may be overcome through simple changes and reforms to ensure fair rules of the game and an economic growth beneficial to all citizens. USA has a mixed economy, state playing a certain and benefic role in economy, fiscal system depends on public authorities choice. Thomas Piketty has proposed the elimination of inequality by taxation- a global tax on wealth- a political project with zero chances of success. Stiglitz makes some reasonable proposals to improve the American tax system, the aforementioned ones.

Stiglitz asks himself if there is discrimination as a permanent element of market economies and the logic answer would be *yes*, this starting from the influence of Martin Luther King ideas on his economic thinking. Stiglitz has written an essay entitled *The Myth of America's Golden Age*, in which he remembers the nightmare times of childhood and teen-age period. This essay was written after the publication of the book *Stress Test* of Timothy Geithner, former Treasury Secretary, who tried to defend his and his Administration policies during the crisis in an awkward way, putting the problem of moral hazard only for homeowners and not for bankers. Dr. King's speech *I have a dream* was so important for Stiglitz because he belonged to a contesting generation that wanted to correct inequities and injustices of the past. In order to solve the problems related to social discrimination and to build a better society Stiglitz gave up physics in favor of economics. Some leaders of Chicago School of Economics (neoliberal doctrine) minimized the problem of income distribution and denied the existence and importance of discrimination on a competitive labor market. Dr. King was fighting not only against segregation but also for economic equality and justice for all Americans. After 50 years racial discrimination is not finished, covers new forms, some more insidious and especially regarding job accession and income levels. A percentage of 65% of Afro-American children live in low income families and 40% of people put in jails are Afro-Americans. There is still an obvious segregation in education, a lack of equal opportunities and not enough jobs for Afro-Americans although many black people have important jobs, like President Barack Obama, or are famous musicians, artists, sportsmen and scientists.

After half a century the problem of social inequality reached crisis proportions and *American Dream is only a Myth*. After a short period between 1950 and 1980 when the welfare of the rich and that of the middle class increased together, a period of increased inequality followed, an explanation lies in the theory of propagation of economic benefit from top to bottom, specific to Republican Party. But a Democrat Administration put into practice this theory by offering billions of dollars to the banks without any condition. However the banks cut the amount of loans and offered mega-bonuses to the managers who practically led them towards bankruptcy. Commercial and investment banks have committed a lot of villains and received huge rewards for that. Timothy Geithner was afraid of moral hazard of helping debtors and not of moral hazard of giving aid to the banks responsible of excessive indebtedness and high risk mortgages. Political system is strongly influenced and flawed by the intense lobby made by banks and other corporations. Too bad the politicians do not

understand the more inequality exists the lower economic growth will be. Public policies and institutions may stimulate or counteract the raising of seeming inequality. It is true that Obama Administration and Fed have saved the banks with taxpayers money but with loans having a tiny interest rate while the banks have lent the government with 2-3% interest rates.

Difficult and restricted access to education due to very high costs accentuates the inequity and inequality, reducing the chances of poor young generation to successful professional careers. Student loans would have achieved after some sources, around \$1500 billion, after other sources almost \$ 3000 billion, much of them cannot be paid and neither is allowed personal bankruptcy, eventually they will be passed to future generations (to descendants). But in some countries, like Scandinavian ones, all education is free of charge, in other, like Australia, students may receive low interest rate credit which is afterwards paid according to the income of graduated person. *Justice for all* is another empty slogan in USA, because not having precise debtor evidence some banks have brought unfounded accusations to many borrowers who have to defend themselves in the courts using very expensive lawyers, but for blatant miscarriages of justice as a result of forgery of some credit files no banker has gone to jail. Obama Administration has saved the banks but not the debtors, most of them have lost their homes, not receiving a financial support from the public authorities or payment facilities from the banks, although there have been legislative proposals and even a strategy in this respect. Ebola epidemic brought out in sight not only of the health disaster from Africa but also the inefficiency of private system in the administration of health services focused on taking profits and not on addressing serious ailments and providing good services for all citizens.

If you were born in a poor family in USA you have small chances to get atop the social pyramid, chances are secure only if you're a genius. Many statistics and studies show that poor children have low chances to climb up the social ladder, their chances of success depend much on the education received and their parents' income. If you are a rich child you may benefit from a better nutrition, better health services, a better school, more recreational activities, better housing conditions, a more select/civilized district for living and so on. In the last decades US Administration and States Authorities reduced the financial support for public schools and universities which led to the huge fees (\$ 60 thousand per year at Harvard University), a huge burden of student loans, a decline in the quality of education. The privatization of education and health services started by Reagan Administration and continued thereafter under the influence of the ideas of neoliberal school (led by Milton Friedman for a long time), increased enormously the cost level in these two social domains, but it has reduced the degree of accessibility and has not driven to an increase in the their quality and performance.

A perverse consequence of this phenomenon of liberalization at any price of social fields is the exponential growth of debts from student loans, figures provided by Stiglitz being it seems smaller than the real ones, and the situation is desperate for tens of thousands of university graduates, notably for those who cannot find a job. Student loans debt that exploded in the last two decades, being higher than that at the credit cards, is more difficult to control because academic degree provides better paid jobs today than the jobs for those who do not have diploma. At the same time this high debt negatively affects the consumption level and implicitly the economic growth. Public investments in human capital are the key for a sustained long term economic growth and for ensuring a very competitive economy. Some universities have become a sort of commercial companies in search of profits, sometimes on the backs of students. For example Harvard University is the best (private) university in the world and provides a high level education, but it had an annual budget of \$ 36.4 billion in 2014, cost of attending Harvard College without financial aid is \$45,278 for tuition and \$60,659 for tuition, room, board and fees combined, it has a paid staff of 13,000 for 21,000 students and a president paid with \$ 1 million per year. One may see very high tuition fee for a student, but these fees cover only 1/3 of the whole budget.

In the wake of the financial crisis, about 4 million people were going to lose their houses, and the law was supposed to protect them, but *corruption in the American style* means influencing the laws in their own interest



by big corporations through an insidious lobby addressed to politicians. The legislation was not able to prevent the housing bubble, to protect vulnerable consumers (naïve and uninformed) from exploitation lending practices. Then the bankruptcy legislation was amended to introduce the system of partial contractual servitude whereby a debtor became indebted for the rest of his life, paying a part of his salary and also a huge interest applied to all loan. Because  $\frac{1}{4}$  of mortgages were not covered by mortgage value the only solution was to cut the principal value; if the bankruptcy procedure for corporations keeps their functioning and preserves their jobs by means of equity capital is also very important as the families and local communities to be kept intact. That is why Stiglitz raised the issue of mass refinancing of mortgage loans, possibly through a fiduciary society financed by the government (Jeff Merkley's plan).