

of the consultants made a euphoric speech about the economy's "new paradigm." The consultant believed that we had reached a new era of perpetually rising stock markets. Hence, he argued the pension fund should bank on a higher rate of return for the indefinite future. Mazzocchi flashed a wily smile and asked, "Since when did they repeal the laws of capitalism?" Mazzocchi was right, of course. He had lived through the Depression and feared it could happen again. But I recall at the time thinking that maybe Mazzocchi was wrong. Maybe something about the structure of capitalism really had changed so that extreme booms and busts were a thing of the past. Go figure.

Have I finally figured out all the laws of capitalism?<sup>20</sup> No. But I am sure of one: We can count on more booms and busts. So, I offer this explanation:

- Because productivity and real worker wages diverged starting in the 1970s, income gushed to the top—to the richest 1 percent or so among us. Tax cuts for the wealthy, deregulation, globalization, antiunion policies, reduced social programs, and declining value of the minimum wage all accelerated that process. The productivity bonus went to the investor class instead of to workers, where it had gone between 1945 and 1973.
- Some of that capital went to productive investments. But eventually it ran out of moderate-risk investment opportunities in the real economy. It became surplus capital when it could no longer find stable investments to make in the real economy.
- The problem of surplus capital that couldn't find a home was "solved" by the derivative industry. CDO-type investments offered higher rates of return, supposedly at little risk. The casino was open for business.
- Through the magic of fantasy-finance derivatives, these funds were recycled to cover risky consumer and corporate debt, and to create instruments that

were leveraged again and again upon these debts. All this was enormously profitable for the financial firms that arranged, sold, and traded these products. It also made hundreds of billions of dollars available both for housing and credit card debt and for additional fantasy-finance betting. The surplus capital fueled the housing boom via the derivatives, and it led to a vast expansion of the financial sector.

- Meanwhile, working families had to work harder and longer to make ends meet. More and more families needed two wage earners. More families increased their debt loads.
- The bubble burst because that's what bubbles do. At some point marginal buyers could no longer buy enough houses or pay for the ones they had bought. Too many builders built too many homes because the boom had accelerated prices. American workers with stagnating real wages had reached their debt limits and could no longer fuel the boom.
- When the housing bubble burst, the entire fantasy-finance edifice that had been built upon it collapsed as well. Investors and banks all over the globe were loaded with toxic derivatives based on risky mortgages that had crashed in value. The risk supposedly had been engineered out of these derivatives, but it hadn't. Many financial institutions central to the economy became insolvent or nearly so. The banking system froze. The stock market crashed. The global economy tanked.

And here we are.

Whether or not this summary gets the story exactly right, there are strong reasons to narrow the wage gap as a way of dealing with the ongoing crisis. If real wages rise, workers will spend