may have to delay or completely give up on college, and certain medical needs may go unaddressed because the family can no longer afford such expenditures. Tornadoes and fires are examples of a number of such risks that we face every day. It makes no sense for individuals to bear these risks. Instead, a sound financial system should allow us to collectively insure one another against such risks that are beyond the control of any one person. It is a relatively small cost for us to protect each other on a regular basis, and the gains benefit everyone in the long run. When a family is able to move forward after a disaster, they can properly take care of their kids and can continue working. Our overall economic productivity and happiness are higher.

Debt is the anti-insurance. Instead of helping to share the risks associated with home ownership, it concentrates the risks on those least able to bear it. As we have shown, debt significantly amplified wealth inequality during the Great Recession. It also depressed prices through foreclosures. And once the decline in house prices destroyed the net worth of indebted home owners, one consequence proved disastrous—they stopped spending.

3: CUTTING BACK

A powerful narrative of the Great Recession focuses on the collapse of Lehman Brothers in September 2008. Allowing the bank to go bankrupt, the argument goes, was a "colossal error," and the failure to save it triggered the global economic downturn.[1] In an article on the causes of the Great Recession, Jacob Weisberg of the *Daily Beast* described it as "near-consensus" that "a global recession became inevitable once the government decided not to rescue Lehman Brothers."[2] This narrative is closely tied to the banking view articulated in chapter 1. According to this view, the collapse of Lehman Brothers froze the credit system, preventing businesses from getting the loans they needed to continue operating. As a result, they were forced to cut investment and lay off workers. In this narrative, if we could have prevented Lehman Brothers from failing, our economy would have remained intact.

The Consumption-Driven Recession

Is the collapse of Lehman Brothers the linchpin of any theory of the recession? Let's go back to the data. One of the facts that jumped out in chapter 1 is that the Great Recession was *consumption-driven*. Let's look more closely at the timing and magnitude of the spending declines.