THE ROARING NINETIES – WHY WE'RE PAYING THE PRICE FOR THE GREEDIEST DECADE IN HISTORY, Joseph E. Stiglitz, 2004, Penguin Books, London, pp. 389

Review*

In the preface to *The Roaring Nineties,* author J. E. Stiglitz mentions that he got into economics in the 1960s, the years of the civil rights and peace movements. He recollects how he probably wanted to change the world but did not know how. Unlike other boys and girls who tried to open the doors of perception by taking soft drugs and listening to Jefferson Airplane albums, although it is possible that he used those methods as well, Stiglitz decided to enter academia. He thought it would help him firstly to understand and then change the world.

Perhaps not many economists have been as successful in this as he has. He taught at the best universities, moulding the minds of many generations of the best students. His interesting research on asymmetric information won him the Nobel Prize. However, this was not all he wanted to do. In the nineties he decided to switch from academia to the "real" world and became the chairman of the Council of Economic Advisors (1993-1997) while President Clinton was in office, and afterwards became the chief economist of the World Bank (1997-2000). Work experience gained in the nineties inspired him to write firstly *Globalization and Its Discontents* and afterwards *The Roaring Nineties*. With the first book he unintentionally gained many fans among antiglobalists and with the second one it seems he is becoming very popular among opponents of free market fundamentalism.

The main message of *The Roaring Nineties* is, as stressed by the author himself, that there has to be balance between government and market. The reason why Adam Smith's "invisible hand" is invisible is because maybe it does not exist; markets cannot efficiently allocate resources by themselves. By following private gain, individuals will not contribute to the whole society, because of the asymmetry of information. Since some market participants have information that others do not, it enables them to work at the expense (instead of to the benefit) of those they are supposed to serve (principal agent problem). Hence government regulation is necessary.

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Stiglitz blames deregulation of the finance, telecommunications and power generation sectors for the problems that were pronounced in the USA in the nineties and which in the end contributed to the recession of 2001.While doing so he mostly concentrates on corporate scandals (one chapter out of twelve is dedicated to Enron), "creative accounting" and the dominance of finance (Wall Street) over the real sector. Deregulation (instead of reformed regulation as promoted by Stiglitz) was harmful because it even more enhanced misalignment of interests between business subjects and their clients. The author explains this with examples from the sectors mentioned above. Deregulation did not increase competition on the market; it rather increased competition for the market. Why would business subjects lobby for deregulation, as it was the case in the USA, which would logically lead to bigger competition and lower profits? From the very start they were interested in obtaining first mover advantage, that is, in strengthening the position of the biggest market participants and at the same time destroying weaker competitors.

By focusing on the process of seeking monopoly profits through deregulation, Stiglitz defines the greed mentioned in the book's subtitle. With monopoly profits, as well as with creative accounting, were connected the million-dollar earnings of CEOs, which, according to Stiglitz, did not have real foundation. He is especially angry with the banking sector which in the nineties stopped being a control mechanism over corporate sectors and turned into a participant of numerous business scandals, including Enron. Stiglitz sees the nineties as a period in which money triumphed over morals, in which individuals were valued according to how much they could get.

Besides criticizing regulation policy, Stiglitz covers fiscal and monetary policy issues. When it comes to fiscal policy, he concentrates on the effects of the decrease in the budget deficit and the tax benefits introduced in the nineties. In the first segment he explains why the fall in the deficit contributed to economic expansion, which is contradictory to what standard economic theory suggests should have happened. As far as tax benefits are concerned, he believes that they benefited the richest 1% of the population - individuals who earned their wealth from stock market speculations and who lobbied for such benefits. These benefits were introduced at the expense of people with higher middle incomes. Stiglitz is troubled with the fact that such a tax policy sent a message to young people that the best way to earn an income is by stock market speculations. Later in the text he openly regrets the smartest young people in the USA choosing to study law and economics.

The Fed and Greenspan are criticized several times. Stiglitz thinks that the Fed could have prevented the 2001 recession. Instead, it helped to inflate the stock-market bubble. Stiglitz believes that the Fed enjoys independence without good reason and that it is only a means by which the financial lobby operates. He also does not see central bankers in a positive way because, in his opinion, the number of unemployed is for them just a matter of statistics. In this way the unemployed are dehumanized; one does not have to think about them as real people with families and children. Their suffering can be ignored.

The book describes the hypocrisy of the corporate sector, but also of the USA in general. There are several rules when it comes to the business sector: a) business people generally oppose subsidies, for everyone but themselves; b) everyone is in favour of competition, in every sector but their own; c) everyone is in favour of openness and transparency, in every sector but their own. US hypocrisy manifests itself in the fact that policy measures that are carried out at home are different from those the USA is trying to impose on the rest of the world. Channels of US influence are the World Bank, IMF and WTO. As one of his examples, Stiglitz states that the Fed has to worry about not only inflation but also about growth and employment, but for the rest of the world USA insists on inflation only. According to Stiglitz, the main goal of the USA is to set up a framework benefiting its foreign operations no matter what the consequences for other countries. After the USA succeeds, it sets up barriers that do no exist for American business people. Stiglitz blames the USA for forcing market liberalization through IMF policies, which have contributed to instability in developing countries. He describes it using the example of the financial crises. Attacks on the IMF were even more pronounced in *Globalization and Its Discontents*. In a presentation of that book, Kenneth Rogoff, then a high-ranking IMF employee, severely criticized Stiglitz's opinions about the IMF and its employees.

Stiglitz is aware that government, just like the market, has many imperfections, with consequences that can be very dangerous, which is why government and the market should work together. He criticizes the assumption that government is unavoidably inefficient and that due to this everything should be left to the market. He thinks that government officials take very little money through graft compared to the amounts stolen from shareholders in business frauds. Stiglitz does not give a solution for finding the right balance between government and market. He just states that it would lead to high growth rates and that every country is specific and therefore should find its own balance of government and market which would work out the best.

Government's role should not consist only of correcting market imperfections but also of contributing to greater social justice. At the end of the book he argues in favour of "democratic idealism" which is based on social justice, democracy, freedom and a government that would invest in education and technology and ensure adequate social protection. When describing social justice he stresses the opportunities for finding jobs, that is, employment. He urges breaking the link between money and politics and forming incentives to disenable immoral behaviour. The market is still in the centre of things, in his view, but with pronounced competition.

The book is easy to read but it abounds in tiresome repetitions. There are no graphs or tables in the book, which has a popular target audience. Stiglitz believes that a well informed public is a basis for a well-functioning democracy. Some might say that all Stiglitz's opinions are appealing but that he has no firm evidence to back them up. For example, he writes that in the 1990s the real sector was neglected, and yet he neglects it himself. He fails to notice that the increase in productivity in the 1990s was real and not just a side-effect of events happening in the financial sector. Maybe he could have corrected this shortcoming by analyzing technological progress a bit more, that is, by analyzing economic growth through its factors. However, maybe then his story would not have been that convincing.

Furthermore, as hard as Stiglitz is trying to be objective and warn about the mistakes made during the Clinton administration, it is more than obvious that President Bush annoys him very much, sometimes even unjustifiably. Bias can also be seen in trying to find balance between government and market where he puts too high hopes in government and criticizes the market too much. After all, attempts made by lobbyists would all be in vain if they did not have cooperative congressmen to work with them, who knew where their money was coming from. True, the amount of bribes taken by government officials is maybe not all that big, but then, corruption has high social costs.

Regulation, so often mentioned by Stiglitz, is for political economists only a means for the creation and distribution of rents. Regulators are often captured by those they are supposed to regulate. When he says that policy measures will benefit special interest groups and not average citizens as long as the nexus between money and politics is not broken, the first reaction of readers will probably be: that is fine, but how should it be done? Also, the thought that there has to be a balance between government and the market is neither revolutionary nor helpful to policy makers. Finally, the title is maybe not completely appropriate. Human greed has always existed; it is hard to judge about its size in different decades. The subtitle of the first edition of 2003 was *A New History of the World's Most Prosperous Decade*. Had there been tables with concrete economic indicators in it, the subtitle would not have matched the content. Maybe this is the reason why it was changed.

Despite of all these critiques, Stiglitz deserves our sympathy for several reasons. Firstly, he is ready to place himself under public scrutiny and write about failures that happened while he was among the policy makers. A little more self-criticism would be nice. Secondly, he took the challenge and left the safe refuge of academia to contribute directly to the future of his country; throughout the whole book one can feel that it was written by somebody who sincerely cares about the progress of not only the citizens of his country but of the whole world as well. Furthermore, Stiglitz was right to warn the public about something that is too often forgotten: officials in abusing public office for private gain do not work alone. There is the other party too.

The last sentence of the book is: "Perhaps together, America, Europe, and the developed and the developing world, can forge a new form of global democracy, and a new set of economic policies – policies which will ensure a new-found prosperity, a prosperity which will be shared by all the citizens of the world." It is nice that Professor Stiglitz has not forgotten his hippie roots and that he still wants to change the world. He is unfortunately still not quite sure how to do it, but his intentions are good.

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