Joseph E. Stiglitz, *The Roaring Nineties: A New History of the World's Most Prosperous Decade,* New York: Norton (2003), pp.xxxiv, 379.

This book is the second in a series by eminent economist, public servant, and public intellectual Joseph Stiglitz. Its predecessor, the subconsciously Freudian *Globalization and its Discontents* (Norton 2002), attained considerable notoriety for the author's withering attack on the International Monetary Fund and United States Treasury Department for their promotion of financial globalization. It made Stiglitz something of a celebrity on the granola left. But what that book possessed in passion it lacked in coherence (see my review in *Foreign Affairs* July/August 2002). It was better at criticizing the actions taken by the Fund and the Clinton Treasury in response to the Asian crisis than at suggesting alternatives.

The Roaring Nineties is a better book. It offers a coherent critique of the policies of financial liberalization pursued by Ronald Reagan, George Herbert Walker Bush and William Jefferson Clinton. It links these to the economic excesses that culminated in the Enron, Worldcom and Tyco scandals and in the collapse of the bubble economy. Financial markets, Stiglitz argues, are intrinsically fragile and inefficient owing to the difficulty investors have in assembling and digesting information. Unfortunately, this fact remains inadequately appreciated by policy makers. In particular, the Clinton Administration placed too much faith in the markets. Visible consequences of this error included the Asian crisis in 1997 – which resulted from U.S. Treasury and IMF pressure for emerging markets to deregulate and open their financial systems – the all-but-failure of the mega-hedge fund Long-Term Capital Management in 1998, and the high-tech bubble, whose collapse in 2000 bequeathed a recession from which the U.S. economy is still struggling to recover. By surrendering to the tyranny of the financial markets, the Clinton Administration sacrificed its social agenda on the altar of a false god, the balanced budget.

Stiglitz's critique is grounded in his personal experience. He came of age in the 1960s and like many children of that era believes strongly in civil rights and equal opportunity – and that government can be the solution rather than the cause of social and economic problems. His seminal scholarly work, for which he was awarded the Nobel Prize in 2001, is on the economics of imperfect information.

In this book these two strands come together nicely. The author argues that unfettered markets deliver inefficient outcomes because of information asymmetries giving rise to principal-agent problems between corporate executives and their stakeholders (not just shareholders but society as a whole). This asymmetry of information in turn creates a prima facie case for regulation, one that was carelessly disregarded by the Clinton Treasury.

For Stiglitz, who served first as member and then as chair of the Council of Economic Advisors under Clinton, the single most important decision taken by that administration was to pursue deficit reduction in an effort to stimulate economic growth rather than opting for an increase public spending in order to advance a more ambitious social agenda. The author supports the principle of deficit reduction, acknowledging that the Clinton inherited from his predecessors a deficit that looked dangerously unsustainable. But he argues that fiscal consolidation went too far and was allowed to become an end in itself, vitiating the Democrats' social ambitions. He questions whether deficit reduction can be credited for the robust growth that followed when standard

Keynesian models suggest that a reduction in deficit spending should have curtailed demand and therefore slowed the economy's expansion. He is similarly critical of the IMF for advising crisis countries to balance their budgets in order to attract back panicked investors when in fact tax hikes in crisis conditions only worsen incipient recessions and undermine confidence yet further.

Stiglitz's *doppelganger* is Robert Rubin, who headed the National Economic Council, a rival center of economic advice in the White House, and then served as Clinton's influential Secretary of the Treasury. It was Rubin who insisted on deficit reduction and, according to Stiglitz, convinced the president to place his faith – and his political fate – in the hands of the markets. Other evidence suggests that Rubin actually held more nuanced views than those for which he is given credit in these pages. For example, Rubin's own memoirs, *In an Uncertain World* (Random House 2003), reveal a deep and abiding skepticism of the efficiency of financial markets. Rubin and the Clinton Administration may have gone too far in the direction of financial deregulation, but not because they were blinded by the ideology of market fundamentalism.

Moreover, the case for fiscal consolidation as a factor in the solid performance of the U.S. economy in the 1990s is stronger than Stiglitz acknowledges. Clinton's decision to prioritize budget balance did not in fact aggravate the recession of the early 'nineties. By 1993-4, when the decision to balance the budget was taken, recovery was underway, and the argument for deficit spending to counter the recession no longer applied. Indeed, one can argue that the low interest rates resulting from the policy and the federal government's limited competition for funding (the absence of "crowding out" of private investment by the public sector) made additional resources available for capital formation precisely when the payoff was greatest. The second half of the 1990s may have been a period of financial froth, but it was also when the foundations were laid for the information and communications revolution that subsequently produced rapid productivity gains. It is hard to imagine that we would now reaping these benefits without the extensive investment in new technologies made possible by deficit reduction a decade ago.

Thus, of the two counts of author's indictment – that financial deregulation and deficit reduction were counterproductive – the first holds more water than the second. The more we learn about the financial manipulations of the 1990s, the more compelling is Stiglitz's critique of deregulation and the more convincing is his call for a return to more vigorous government oversight. At the same time, the more we see of the second Bush Administration's fiscal profligacy, the less inclined many of us will be to accept Stiglitz's dismissal of the Clinton Administration's fiscal achievements.

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