The Roaring Nineties: Seeds of Destruction. By Joseph Stiglitz.

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Michelle Robinson*°

michelle.robinson@duke.edu

In a follow up to his book *Globalization and Its Discontents,* Joseph Stiglitz has changed his focus from the international community to the United States. His new book is *The Roaring Nineties: Seeds of Destruction.* The book chronicles the bubble that formed during the 1990s and the results of the subsequent bust on not only the US economy, but also on the economy of the world.

Chapter 1, " Boom and Bust: Seeds of Destruction," outlines what brought about not only the boom of the roaring 90s, but also what causes of the boom lead inevitably to a bust. Stiglitz blames four main reasons for the bust of 2001. First, is the boom itself. The boom was a typical bubble which Stiglitz says are "based on a certain irrational exuberance (pg. 10)." Since this exuberance is irrational, it will inevitably be discovered to be false, leading to a bust. Second, Stiglitz blames the bad accounting practices of the 90s for providing bad information which just spurred on this irrational exuberance. Third, he blames the deregulation of the 90s for the bust because the deregulation of many industries including electricity, telecommunications, and finance distorted the incentives for executives, making them attempt to increase the appearance of profits which merely fed the bubble. Finally, Stiglitz feels that the cutting of the taxes on capital gains during the Clinton Administration sealed the fate of the bubble. This made more people pour money into the stock market since their gains would not be taxed as heavily.

* Michelle Robinson is a junior at Duke University majoring in Economics.
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This fed into Stiglitz's irrational exuberance, inflating the bubble that was inevitably going to burst.

After highlighting in general what he thought caused the burst, Stiglitz goes on in the following chapters to discuss the impacts of the different government agencies during the inflation of the bubble and the following burst. In the second chapter, he claims that all the good that the Clinton administration did during the time period was a lucky mistake. It was not Clinton's aim to befriend the business sector, but by focusing on lowering the government deficit, Clinton inspired confidence on Wall Street. In the following chapter, Stiglitz lays out what he thinks the "All-Powerful Fed" did that not only did not stop the bubble but allowed it to pop with great harm to the economy. The fourth chapter goes more in-depth into the problems of deregulation and how the deregulation that was supposed to cause more competition merely increased the first mover advantage, increasing "competition *for* a market, but not competition in the market" (pg. 97). The fifth chapter adds more information about the bad accounting practices that lead to the boom and bust. In particular, Stiglitz emphasizes the practice of giving corporate executives stock options and then not counting those options in their financial reports, thereby inflating the value of the companies' profits and deflating the value of the stocks of the investors.

The sixth chapter highlights the ways that banks fed the bubble and caused it to burst. The wave of deregulation of the 90s allowed commercial banks and investment banks to merge together. This caused a conflict of interest for banks: the investment side of operations wants to issue stock in different companies while the commercial side is loaning that company money. This conflict caused banks to continue loaning to companies that did not repay them in the hope that this last loan would turn things around for the company and repay the investment side of the operations. The huge collapses of WorldCom and Enron both involved banks making unwise and risky loans until the very last minute.

Next, Stiglitz reemphasizes his point that the way the tax cuts, especially the cuts to the capital gains tax, occurred in the 90s led to more people investing in the stock market, feeding the bubble. Stiglitz focuses on the fact that proponents of the tax cut thought that it would encourage investing and actually raise government revenues. This occurred, but according to Stiglitz, long term government revenues will fall as a larger than normal amount of people withdraw their profits now to take advantage of the smaller tax on profit as opposed to withdrawing in the future when he expects the tax rate will have gone back to the normal tax rate. The tax cut also encouraged CEOs to increase the value of their companies' stock so that they could cash out their options and make money, even if it meant breaking the law and overvaluing the worth of their companies.

Next, Stiglitz discusses how as a whole the American public made risk a way of everyday life. He especially focuses on the looming crisis in the pension system which he claims in the long run could dampen consumption. Stiglitz constructs a model in which a severe downturn in the stock market at the time of retirement could drastically cut the income of people who rely on a private pension program. This cut in income would reduce consumption, which, in Stiglitz's model, would only deepen the recession.

The following chapter outlines the successes and failures of US foreign policy during the 90s and seems to be a throwback to Stiglitz's earlier books. He highlights how the policy that the US pushed through international institutions through the supposed

Washington Consensus of the IMF, World Bank, and the US Treasury Department might have caused a boom in the short term. This boom, Stiglitz claims, occurred because the Washington Consensus allowed and even pushed small foreign countries into borrowing lots of money from the IMF and World Bank, which really ended up being loans from the US. Unfortunately, the long term implications of these huge amounts of borrowing could cause the world economy in the future as countries default on their loans.

Stiglitz then devotes a chapter to discussing the collapse of Enron using the mechanisms explained earlier. The following chapter "debunks" certain economic myths that Stiglitz feels people used to explain the success of the nineties before the crash of 2001. He concentrates on proving the falsity of certain myths including the "myth" that deficit reduction leads to economic recovery and that deregulation and self-regulated markets lead to success by themselves.

In the final chapter of the book, Stiglitz outlines what he sees as the ideal future for the economy of today. Stiglitz is a firm believer that the market can not operate without the government. He does not advocate a system that has no elements of a free market, but he recommends government initiatives, especially those that decrease asymmetries in information. Stiglitz would also like to see the government involved in spreading social justice, which he defines as equality of opportunity, the opportunity for employment, empowerment, and intergenerational equity and sustainability. Stiglitz's overall conclusion is that the market economy is a good thing, but that there are important market inefficiencies that the government needs to take care of in order to avoid the bubble/bust syndrome that marked the 90s.

The one thing that I would personally fault this book on is Stiglitz's belief that certain programs are better run by the government. As an example, Stiglitz believes that privatizing any of Social Security is a bad thing. He believes that it is something best left to the government. Social Security is currently run by the government but is forecasted to be out of money before I personally will be able to collect from it, so either tax rates will dramatically increase, so there will be an inter-temporal tax regime which is inefficient or social security payments will be reduced. Currently, the government gives out more money to those who are retired than it takes in. It also does not differentiate greatly between those who contribute a lot or a little to Social Security over the course of their careers. Privatization might allow some more successes in the program. Although I am not an advocate for the complete privatization of the program, it is clear that the government does not always operate efficiently.

In general, I found this book a very easy read. It discusses some very complex economic concepts in layman's terms that would allow anyone from Joe Public to an economics professor to get something out of the book. The mixture of theory and examples from real life further helps to support Stiglitz's claims. I think I would find it hard to fault much of his evidence.