Joseph E. Stiglitz, **Freefall: Free Markets and the Sinking of the Global Economy.** New York: Norton, 2010. 361 pp. ISBN 978-0-393-07596-0

"I told you so!" This is what Columbia University professor and the Nobel Prize in Economic Sciences laureate Joseph E. Stiglitz could say to all those movers and shakers who were shaping the U.S. economic system for the past 30 years, especially in the 1980s and 2000s, after the Great Recession stormed the globe leaving the whole of humanity to deal with its aftermath. Instead of shouting this chant, he wrote a book. *Freefall: Free Markets and the Sinking of the Global Economy*, his latest monograph published in February 2010, scrutinizes the reasons and consequences of the world's biggest economic crisis after the Great Depression. Taking into account the fact that the U.S. and the world economies are still recovering from the Great Recession and prospects for the future are still gloomy, he didn't hesitate to produce and deliver a comprehensive study about how and what happened. The major reason encouraging him to do so before everybody else was the fact embodied in the first sentence of this paragraph, namely that he was right all the time and that he predicted the storm was coming.

Over the past fifteen years as he was occupying prestigious posts such as a member of the Clinton administration's Chair of the Council of Economic Advisors, the Chief Economist of the World Bank and professor at Columbia University, Stiglitz was constantly criticizing economic policies that led to the U.S and subsequently world-wide economic meltdown. This standpoint in a great portion cost him the position in the World Bank and even some kind of silent exclusion from the mainstream U.S. economic academic community. Books such as *Making Globalization Works, The Roaring Nineties: A New History of the World's Most Prosperous Decade, Globalization and Its Discontents* were criticized as obsolete conservative manifestos of a Keynesian approach advocating harmful and progress-blocking state interventionism. Even the 2001 Nobel Prize he won didn't do any good to make his arguments at least a little bit more valuable to his critics. But what goes around comes around. As all the main levers of the American and global economy started to break down one by one, his arguments were getting on-the-ground confirmation, and all that was left for his critics to do after the storm was over was to state grumpily: "Damn! He was right."

Therefore, *Freefall* represents vindications of all Stiglitz's arguments that were disputed. This book in ten chapters reveals all those weak and corroded links in the American economic system that caused the global meltdown: unjustified and suicidal deregulation, the greed of bankers, speculative behavior, lack of morals and ethics in the economic sector, unsustainable overconsumption, and government misbehavior concerning bailouts, loans and public deficit. Using the method of "peeling back the onion," as he calls it, Stiglitz is trying to reach a conclusion as to what went wrong. Furthermore, he doesn't stop here. He is trying to draw lessons and recommendations for the future in order that this situation never repeats itself. Though the spectrum of his analysis is broad, it's possible to say that *Freefall* covers four major topics: reasons, causes and timeline of the Great Recession; the behavior of the major companies during the crisis; the Bush and Obama administrations' responses and policies; and future recommendations for the restructuring of the economic system as

well as changes in the behavior of society. What makes this book even more valuable is the style of Stiglitz's writing. In easy readable, plain English, he makes *Freefall* understandable to one without almost any economic knowledge or background. That is why *Freefall* is to become compulsory literature for all those who want the Great Recession never to happen again.

What happened and how it happened: In the very first paragraph of the first chapter (p. 1), Stiglitz bluntly draws the outline of the crisis:

"A deregulated market awash in liquidity and low interest rates, a global real estate bubble, and skyrocketing subprime lending were a toxic combination. Add in the U.S. fiscal and trade deficit and the corresponding accumulation in China of huge reserves in dollars – an unbalanced global economy – and it was clear that things were horribly awry."

Stiglitz points out that clues to the forthcoming breakdown were visible both in the previous and current decade. At that time three-quarters of the economy (of the GDP) was house related, the dot-com bubble burst in the spring of 2000 showing what was the consequence of speculative experiments in the stock-market, and oil prices rose from $32 per barrel in March 2003 to $137 per barrel in July 2008.

The first ones to be pushed to the wall of shame in *Freefall* are the bankers, the Wall Street, and the Bush administration (especially Alan Greenspan as the director of the Fed). Banks failed to do their main task, to provide small and medium-size business and the general population with accessible loans. Instead, they focused on "promoting securitization, especially in the mortgage market." Wall Street, in its "Frankenstein laboratories," created risky and poisonous products that were the major instrument for exporting the crisis from the U.S. to the rest of the world. In addition, Bush and Greenspan are blamed for the senseless deregulation enabling the bad behavior of the previously mentioned tandem of financial institutions.

Government's Response: Once the downturn was on the roll, naturally, the government was obliged to do something and save the economy. Stiglitz argues that all that both the Bush and Obama administration did was to create massive bailout programs for "too-big-to-fail companies." The initial move to rescue the economy was Bush's tax-cut program worth $168 billion. Though Stiglitz considers Bush's economic policies devastating and crisis-causing, he is much more critical of the Obama administration's response. He thinks (p. 37) that the major mistake of the new president was that:

"Instead of redesigning the system, the administration spent too much of the money on reinforcing the existing, failed system. 'Too big to fail' institutions repeatedly came to the government for bailouts, but the public money flowing to the big banks at the center of failures actually strengthened the part of the system that had repeatedly run into trouble. At the same time, government wasn't spending proportionately as much on strengthening those parts of the financial sector that were supplying capital to the dynamic parts of the economy, new ventures and small and medium-sized enterprises."

The author emphasizes the negative role of the legislative and executive branch in the creation of bailout programs, as well as the legally questionable role of the Federal Reserves in overriding standard procedures when it comes to dealing with such a massive amount of taxpayers' money. Stiglitz depicts cloudy decisions made by the White House and Capitol Hill using two examples of how bailout programs were created. First, one made by the Bush administration was now well-known $700 billion-heavy Troubled Asset Relief Program (TARP). TARP was initially rejected in Congress, but the Bush administration "organized auctions asking each of the opposing congressmen how much they needed in gifts to their districts and constituents to change their vote." After these "auctions" were held, thirty-two Democrats and twenty-six Republicans who initially opposed this bill switched sides to support TARP. The other one was Obama's Public-Private Investment Program (PPIP), which has continuity with TARP. The Government would use $75 to $100 billion in TARP, plus capital from private investors, to buy toxic assets from banks. What was described as partnership was actually the draining of taxpayers' money, where up to 92 % of the money was provided by the government which would collect only half of the profits and bear almost all of the losses. Stiglitz describes PPIP as a "Rube Goldberg device that Wall Street loves – clever, complex, and non-transparent, allowing huge transfers of wealth to the financial markets."

According to Stiglitz, the central role in the U.S. economic meltdown, when it comes to the public sector, was played by the Federal reserves. Its influence was crucial "from the creation of the crisis through lax regulation and loose monetary policies through the failure to deal effectively with the aftermath of the bursting of the bubble." Fed was the only Federal institution that didn't have to get Congressional permission to use billions of taxpayer dollars. As Stiglitz puts it (p. 144):

"While the Federal Reserve Board in Washington benefits from better oversight and accountability, the role that it played in the bailouts should be deeply disturbing. It was the non-transparent instrument of choice used by both the Bush and Obama administrations as the bailout became increasingly costly and as the bad behavior of the banks became increasingly clear. The full eventual costs of the bailouts and lending programs through the Fed – and the recipients of the munificent gifts – remain unknown."

Too-big-to-fail companies' behavior: The central place on the dissection table of Stiglitz's criticism is reserved for major American banks. He claims that with the support of the government they staged "the great American robbery," as he titled the fifth chapter of *Freefall*, and one of the biggest allocations of wealth in human history. Banks were successful in this endeavor because they were recognized by the government as "too big to fail." Stiglitz argues that if they are too big to fail, then they are too big to exist. Bankruptcy, he states, is one the cornerstones of capitalism. Companies go bankrupt, shareholders lose everything, bondholders become the new owners and the process continues. When the government interfered to prevent this, it distorted the market and caused further problems.

Until the beginning of January 2010, the magnitude of guarantees and bailouts approached 80 per cent of the U.S. GDP, some $12 trillion. Stiglitz claims that big banks and

car companies were rewarded for their mismanagement and greed. The bigger the loss was the bigger the bailout and opportunity to get taxpayers' money is. Using examples of big car companies, banks and insurance companies, such as AIG, Stiglitz portrays how hundreds of billions of dollars were poured into the private pockets of CEOs and other high-ranking managers while low-paid workers had to put up with lower wages and health care funds cuts. He criticizes Bush's and Obama's unwillingness to cope with these problems and to actually punish these giants for producing and exporting the crisis. The author thinks (p. 131) that they shouldn't go unpunished and proposes:

"A principle borrowed from environmental economics, called 'polluter pays' offers guidance on how should they pay. American banks have polluted the global economy with toxic waste […] and they must be forced, now or later, to pay the price of the cleanup, perhaps in the form of taxes."

In almost 100 pages the author explains how big banks caused the crisis and then cried for help in order to survive. Mortgage scams, predatory lending, risky derivatives, filtration of balance sheets, lack of transparency, suppressing innovation, and the absence of any kind of moral or ethical standards are just some of the crucial factors that caused the too-big-to-fail failure. Ending the analysis about the U.S. bailout clients, Stiglitz concludes that bailouts are nothing new and nothing strange in economic theory, practice and history. However, the public money that has been spent was needed to take care of people and not of managers and CEOs of companies. In this case, "it was just an expanded version of Corporate Welfarism American-style."

Reforming the Nation: As Stiglitz is approaching the end of his book, he sounds more like a sociologist and philosopher than an economist. He argues that economic problems in the contemporary U.S. are not only rooted in the economy *per se*, but also in the absence of moral values and unwritten ethical and moral norms. "Moral crisis" and "moral deficit," as he calls it, only nurtured and allowed the crisis to develop. He outlines this problem stating (p. 278) that:

"Much has been written about the foolishness of the risks that the financial sector undertook, the devastation that the financial institutions have brought to the economy, and the fiscal deficits that have resulted; too little has been written about the underlying 'moral deficit' that has been exposed – a deficit that may be larger and even harder to correct. The unrelenting pursuit of profits and the elevation of the pursuit of self-interest may not have created the prosperity that was hoped, but they did help create the moral deficit."

Overall, Stiglitz's conclusion is that structural and all-reaching changes need to be made. The situation is bad but not as bad as the one back in the 1930s. He calls for restructure to be made in both the U.S. and in the global economic system. In addition, the U.S. needs to reevaluate its moral and ethical standards because a morally healthy society is the precondition for a healthy economy. He concludes *Freefall* with limited optimism and cautiousness (p. 297):

"We now have the opportunity to create a new financial system that will do what human beings need a financial system to do; to create a new economic system that will create meaningful jobs, decent work for all those who want it, one in which the divide between the haves and have-nots is narrowing, rather than widening; and, most importantly of all to create a new society in which each individual is able to fulfill his aspirations and live up to his potential, in which we have created citizens who live up to shared ideals and values, in which we have created a community that treats our planet with the respect that in the long run it will surely demand. These are the opportunities. The real danger now is that we will not seize them."

Srđan Karalić

Jeffrey Toobin, **The Nine: Inside the Secret World of the Supreme Court.** New York: Anchor Books, 2008. 452 s. ISBN 978-1-4000-9679-4

The Nine: Inside the Secret World of the Supreme Court offers a great insight into the inner world of the Supreme Court, based on interviews with the justices themselves and over seventy five law clerks. Toobins' narrative starts in 1980 on the day that Ronald Reagan was elected president and he traces the changes of the court, in terms of justices, landmark decisions, and ideological shifts (or lack thereof), until the selection of Barack Obama as the Democratic presidential candidate in 2008. Throughout this narrative Toobin provides outstanding insights into the backgrounds and personalities of each of the nine judges who served under Rehnquist (Sandra Day O'Connor, Clarence Thomas, Davis Souter, Stephen Breyer, Anthony Kennedy, Ruth Bader Ginsburg, Antonin Scalia and John Stevens) giving the reader an understanding of the beliefs and experiences that inform each of their Supreme Court decisions and dissents.

Toobin also provides outstanding analysis and description of each of the major court decisions in the twenty years that the book covers. His access to the law clerks and justices allow him to describe the intricate details of how the justices appealed to one another on certain issues, and the inner torment that the justices felt on matters of immense personal interest. He chronicles in great detail the torment of O'Connor over the Casey case and the way in which she came to an agreement with Souter and Kennedy to work secretly on an opinion in the case. We also get great detail regarding Bush v Gore and the Guantanamo Bay controversy.

The prevailing theme of *The Nine* is the ideology of the Court and the way that the appointment of justices is influenced tremendously by the ideology of both the justice themselves and that of the presiding president. Toobin looks in great detail at the selection processes undertook by Clinton and Bush, in their attempts to fulfill manifesto promises and the ideological desires of their parties. The issue of Roe v Wade features prominently throughout the book, signaling its continuing importance in American politics, as well as alerting an outsider reader such as myself to just how much of a contested and controversial