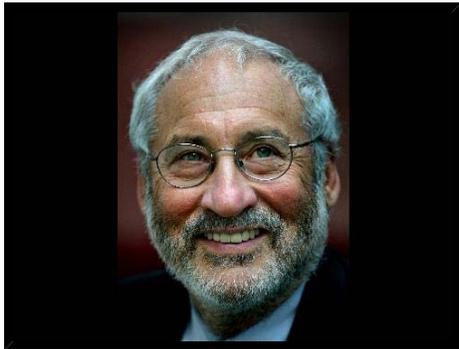




Stiglitz Scolds 'No Drama' Obama for Failing to Rebuild Economy

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Review by James Pressley



Jan. 8 (Bloomberg) -- **Barack Obama** ran for president on the promise of "Change We Can Believe In."

When it comes to the financial crisis, he has instead "only slightly rearranged the deck chairs on the Titanic," writes **Joseph E. Stiglitz** in "Freefall," his unsparing new account of the meltdown and its aftermath.

Stiglitz, a Nobel Prize-winning economist, is perhaps the closest thing we have to **John Maynard Keynes**, both in his theoretical outlook and his cogent kibitzing of policy makers. In "Freefall," he brings his formidable brain to bear on how flawed theories

and misguided policies brought us the worst meltdown since the Great Depression.

Though Stiglitz spends much of the book exploring what went wrong and why -- "peeling back an onion," as he calls it -- his emphasis is on the future, not the past. His message: We have a once-in-a-generation chance to design "a more efficient and a more stable economy" by readjusting the balance between markets and government. Obama has so far squandered this opportunity, he says.

The president did engender a sense of hope, he writes.

"And yet, in a more fundamental sense, 'no drama' Obama was conservative," Stiglitz writes. "He didn't offer an alternative vision of capitalism."

Muddling Through

Obama chose instead to "muddle through" -- "to take a big gamble by largely staying the course that President Bush had laid out." He retained two leading members of **George W. Bush's** economic team, **Ben Bernanke** and **Timothy Geithner**. He also brought in **Lawrence Summers**, who boasted of having ensured during his stint as **Bill Clinton's** Treasury secretary that derivatives would stay unregulated. These were the deck chairs Obama shuffled as the ship of state listed.

Stiglitz frames "Freefall" as a book about "a battle of ideas." He means the conflict between those who say the market is a wondrous, self-regulating apparatus and those who note that deregulation often wrecks the machinery, as **Carmen M. Reinhart** and **Kenneth S. Rogoff** showed in "This Time Is Different."

Yet "Freefall" is no academic history of efficient markets theory. It's more a stream of rat-a-tat dispatches from a military strategist who's tracking troop movements and counteroffenses.

After years of crafting policy for the World Bank and the Clinton administration, Stiglitz knows all the arguments against regulation. He shoots them down, one by one, and keeps up the barrage in the detailed and often spunky footnotes. Anyone seeking an easy scapegoat for the crisis -- be it government homeownership policy or the existence of the Federal Reserve -- won't get much joy here.

Surveying the Wreckage

Moral outrage courses through these pages, as Stiglitz surveys the wreckage: millions of people who have [lost their homes](#) and their jobs; a financial sector that used its political influence to secure “a trillion-dollar bailout”; a U.S. public [debt-to-gross domestic product ratio](#) that surged to almost 60 percent in 2009 and is expected to reach at least 70 percent in the next decade.

Stiglitz’s proposals for fixing the mess will be familiar to anyone who follows his public comments. We should be prepared for a second dose of stimulus spending when the current round ends, he says. More may be needed in 2011.

“When an economy is weak,” he says, “attack with overwhelming force.”

Stimulus money should be spent on investments to build a brighter, more sustainable future, he says. Deficit-financed spending can’t last forever, so he calls, more controversially, for heavier taxes on “upper-income” Americans.

Tax and Spend?

That phrase is disturbingly vague. If Stiglitz lived in Belgium, as I do, he would know how quickly “upper-income” comes to mean middle-class families handing more than half their wages to the government (excluding taxes on sales and all the rest). More sensibly, he wants people to pay a high price for greenhouse-gas emissions, which would provide incentives to waste less and innovate more.

Longer term, Stiglitz seeks a new vision of the financial system that would return banks to the core functions of providing an efficient payments mechanism, making loans and managing risk. He also calls for the creation of a new global reserve currency, to alleviate the need for countries to stockpile dollars as a safeguard against financial upheavals.

Above all, he urges us to pause and reflect on what kind of society we want -- and what kind of economy we need to achieve our aspirations. Love him or loathe him, Stiglitz gives us much to think about in this book. I can only hope Obama makes room for it on his nightstand.

“Freefall: America, Free Markets and the Sinking of the World Economy” is from [Norton](#) in the U.S. and from [Allen Lane](#) in the U.K. (361 pages, \$27.95, 25 pounds). To buy this book in North America, click [here](#).

([James Pressley](#) writes for Bloomberg News. The opinions expressed are his own.)

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