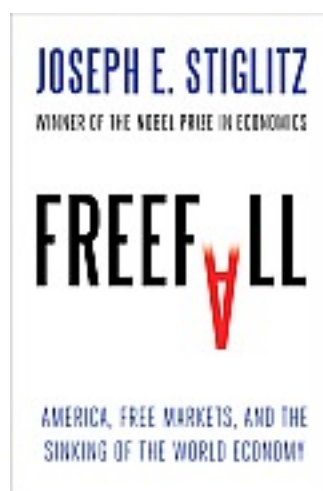


**FREEFALL: America, Free Markets and the Sinking of the World Economy**, by *JOSEPH E. STIGLITZ*, Norton & Company, 2010.  
ISBN 978-0393075960

Raluca OPRESCU

PhD candidate, The Academy of Economic Studies, Bucharest, [raluk.or.raluca@gmail.com](mailto:raluk.or.raluca@gmail.com)



This book is the most recent published work of Joseph Stiglitz - an outstanding academic figure, Nobel Prize laureate and former chief economist at the World Bank. The writing focuses on the recent global turmoil and despite of the crisis-related books profusion, this one stands out clearly because it doesn't indulge in a plain narration of events and aftermath assessment. Even though the analysis is primarily based on the case of the US economy, the author connects his diagnosis to the global context. The topics covered by Stiglitz include American policy and politics, macroeconomic issues, financial markets operations, globalization and even parts of the economic theory.

"Freefall" offers the perfect framework to decipher the current state of the economic systems around the world. The global system is derived from the theory of corporate capitalism, which had been closely scrutinized and criticized in the past few years. It is obvious that a one-

dimensional appraisal of the system is not a comprehensive approach therefore Stiglitz provides a multidimensional investigation aimed to disentangle the events. The book implies that the world is at the crossroads and deep changes should be initiated.

The purpose of Stiglitz's writing is to bring evidence that the foundation of the globalized economy is severely flawed. He upholds the idea that economic systems need to be redesigned in order to step into the future. The author uses the crisis as a tool in order to critically examine the status of the world economy. Nevertheless, this writing aims to investigate the factors that triggered the economic turmoil and their underlying origins.

The book it is mostly build on inductive rationale, fact that determines a certain distinction in the literature. This writing falls perfectly into the current debate of the world leading forums regarding the necessity of an economic paradigm shift as an attempt to overcome the ongoing uproar. Stiglitz is a self-declared Keynesian thus the book follows the patterns of this school of thought.

"Freefall" comprises of ten chapters and each one analyzes various conditions and factors that let to severe unbalances around the globe. While the beginning chapters are a critical analysis of the administration policies of American leaders and their effects on the American economy, later in the book the attention is turned to the errors committed by the private financial institutions. Stiglitz pinpoints that driven by greediness, these institutions managed to create a virtual economy, one that lost track with reality. He describes the economic system as being overflowed with speculation, high risks, low transparency, artificial value, debts and excessive behavior. Heavy monetized economies perceive profits as supreme targets and not as tools to achieve wellbeing of the citizens. He claims that derivatives as an innovation tool were extremely damaging for the world economy. The 7<sup>th</sup> chapter of the book is unique because it provides Stiglitz's vision of the future, a grasp of how the system should work.

This thought-provoking writing reveals a paradox. The American economy is the symbol of capitalism in the form known as laissez-faire but it is precisely this economy that had the most state interference. Intrinsically, government intervention is rejected on the surface but it is accepted whenever the system is close to collapsing. Stiglitz condemns the "too big to fail" policy. Moreover, he argues that the American economic system was based on efficient market hypothesis (Federal Reserve strongly believed in it) but speculative bubbles repeatedly proved that disproves this theory. In addition, Stiglitz emphasizes that it is unethical that market success is attributed only to certain actors but failure has to be "socialized".

Stiglitz also relates to one of his previous books ("Making globalization work", published in 2006) as he attempts to explain how the economic systems evolved through a phase based on overconsumption, low savings and giant risks forwarded as far away as possible into the future. The corporate governance achieved a redundancy of entrepreneurship, fact that led to the creation of the "casino economies" which have induced an irrational behavior of the economic actors. The domination of the American corporations around the world triggered a dangerous confusion as the concept of welfare was directly associated with them. Stiglitz admits that transnational companies became a national symbol for the US hence the nickname "Corporate America". He argues that globalization imposes a reengineering of the economies.

The strength of the book is that it unravels how key concepts of economics such as market value, moral hazard, externalities, economic efficiency or market failure were altered in the past decade. For example, Stiglitz explains how the market value was artificially created before the crisis begun due to constant actions on the supply side. The high diversification of financial instruments has led to a dilution of the market power. The market is supposed to certify the value but in this case it was just a symbolic space. Even though "Freefall" was on purpose designed and written using a style that could be accessible to multiple categories of readers, if the reviewers are not initiated and have minimal knowledge of economic theory they can easily miss out the real stake of the book. The author makes various connections between existing reality facts, theories and past experiences of the world economy.

One major idea of this book is that economies are basically subjugated by politics. The author admits that US economic system tries to dominate the other participants to the global economy by imposing rules of its own and by satisfying its interests. However, here is where a weakness of the book can be spotted. Stiglitz avoids discussing the reactions of other global players to these actions. It is clear that in the past three decades more and more regional organizations had emerged as a challenge to the American hegemony. Additionally, he fails to underline that the real problems of the global economy cannot be solved while an acute adversity and permanent struggle for economic power are unfolding.

An interesting part of the book is the one in which the American economist tackles a major assumption in the classical economics. Stiglitz brings into question the invisible hand and suggests that its validity, power or influence is strongly contradicted by the economic reality. By this, he rejects Smith's theory and the ones of Pareto and Walras who considered it a natural inclination, not a mechanism. According to this theory, the consumer is free to choose what to buy and any manufacturer is free to produce and sell. The market will find that price and that allocation that will be beneficial to all individuals. The reason is that own interest determines the behavior of the economic actors. Stiglitz explains that in the present context it is downright dangerous to accept such a traditionalist approach. He takes a trenching position and states firmly that the invisible hand is unperceivable because it does not exist.

The Keynesian theoretical propensity of Stiglitz becomes prominent when he emphasizes that in his vision there is need for more economic regulation. However, he does not bring scientific, rock-solid

arguments to sustain it. The underlying hypothesis of “Freefall” is that markets are not efficient therefore they impose external intervention. Stiglitz points out that individuals act in a manner systematically irrational and that economic actors often exploit these weaknesses. Irrational exuberance leads to an underestimation of the risks in any economy. The state cannot be excluded from the economic models but it should somehow prevent the exploitation of individual irrationality and help individuals make better decisions. According to Stiglitz the role of the state ought to be reviewed and its involvement in innovation and basic research is imperative. Every game has rules and referees, the economic game makes no exception.

The readers are encouraged to answer the following question: could a correction of the system be enough or the best solution is to replace it? The American economic system had a tendency for correction but the author claims that it only created the premises for new turbulences. In this book, Stiglitz weighs the two options that leaders have. On one hand, there is the possibility to have a system correction but that would not be sustainable on the long run, as the global economy would stumble in successive failures. On the other hand, there is also the alternative that entails a paradigm shift by changing the world economic system completely. The writing presents multiple reasons for which the system can be considered flawed. Stiglitz upholds that the present system it is so badly damaged that it’s not worth saving and under no circumstances the foundations should be carried further into the future.

The conclusion of the book reveals that the systems’ crisis is in fact the expression of a humanity crisis. For the global systems to work, a new set of guiding principles and values could balance the individuality with inter-subjectivity. Materialism has outweighed moral commitment, the needs of the environment have been ignored and there has been a catastrophic break down in trust. Stiglitz believes that in order to build a new system there is need for moral responsibility. Although Stiglitz does not provide a detailed roadmap on how to set up another economic system, he does a brilliant job highlighting the current economic instability and pointing out the weaknesses of the world economy.

Policy-makers and leaders around the globe, experts of the international organizations (especially WEF, IMF and World Bank) should benefit from reading this book as it provides valuable clues on where to start in order to envision a fresh and sustainable economic system. This piece of work can also be handy for the scientific community, especially for the researchers in fields such as macroeconomics, political science, international economics and comparative economic systems. Nevertheless, “Freefall” is a must-read for those who seek to comprehend and elucidate the roots of the financial turmoil.

This is yet another distinguished addition of a world-class professor and researcher to the science of economics. We are at a turning point as this book outlined that our economic system lacks proper checks and balance. It is a mistake to believe that what happened was a simple momentary hurdle. It became obvious the need for rethinking and redesigning the regulatory mechanisms that underpin the world economy, politics and international networks. Just as important is to acknowledge the necessity of moral and ethical revival.