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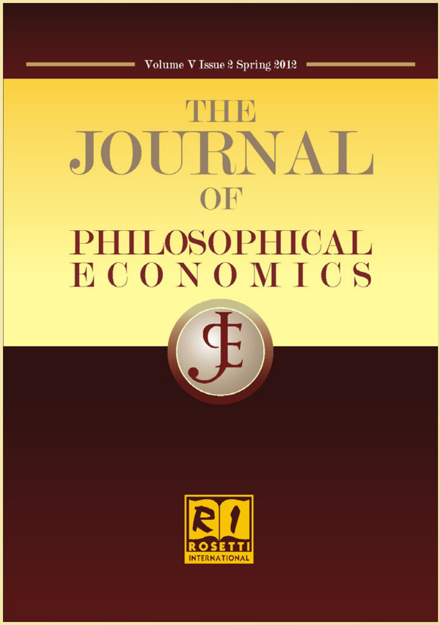

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How does the world move forward after the economic shock of 2008? Are Obama's "new" policies working? What do they mean for middle-class Americans? Joseph Stiglitz examines these questions in his most recent book, *Freefall: America, Free Markets, and the Sinking of the World Economy.*

Freefall is a concentrated look at the financial crisis of 2007-2009 and the policies that followed. He offers a historical, political, and comparative context for evaluating the actions of financial institutions and the Federal Reserve. The book's greatest strength comes from Stiglitz's ability to provide an accessible and comprehensive understanding of United States' financial system. Beginning with Reagan-era deregulation, Stiglitz claims that the United States' financial regime has denied the role of government in ensuring economic stability. While proponents of free markets claim that the 2008 crisis was an unfortunate episode unrelated to previous or future success, he shows how financial institutions have relied on government support all along. For instance, government subsidies for "infant industries" create artificial prices, while laws including the Bankruptcy Abuse Prevention and Consumer Protection Act enable banks to lend more freely without responsibility for defaulting borrowers. The financial system bailout was the culmination of decades of government support. As Stiglitz says, "the misguided attempt to reduce the role of the state has resulted in government taking on a larger role than anyone would have anticipated even in the New Deal." (p. 185) This thorough cause-and-effect analysis reinforces Stiglitz's argument that we cannot simply turn back the clock. To move forward, the financial sector must be fundamentally restructured.

Structural problems, such as inadequate corporate governance, lack of transparency, and the decision-making power of individuals, are identified as factors contributing to the recession and slow recovery. A self-proclaimed Keynesian, Stiglitz condemns the efficient markets hypothesis promoted by the Chicago School and past Federal Reserve chair Alan Greenspan. Instead, he emphasizes the government's role in regulating and maintaining an efficient economy that helps the majority of its citizens. Stiglitz's critiques and suggestions reflect his faith in Keynesian economic models, for which he openly advocates throughout the book. Although this adherence to a particular school of thought reveals a theoretical bias that colors his recommendations, the evidence convincingly supports his critiques.

Stiglitz presents a socially conscious approach to economics, visible in his attention to the unemployment rate and the well-being of middle-class Americans as economic indicators. In his words, the "failures of our economic system reflect deeper problems in our society". (p. 295) While he is empathetic to President Obama's difficult political situation, he is critical of Obama's high-risk "muddle through" policy. Stiglitz highlights the need for a new economic vision, which would shift our focus from manufacturing and consumption of material goods to innovative activity. The study also considers the United States' effect on developing countries' economies, noting the discrepancy between the international responses to the East Asian crisis in 1997 and the American crisis. For instance, following the 1997 crisis, the IMF and World Bank demanded that governments reduce their deficits and raise interest rates. However, in 2008, the U.S. was allowed to increase its deficits and lower interest rates, with no questions asked. Stiglitz's criticism of the IMF as "an old boys' club" of highly developed countries and its post-colonial legacy demonstrate his awareness of the effects of globalization.

Overall, the language employed by Stiglitz is easy to understand. His use of colloquial phrases such as "kid in a candy store" and "peeling an onion," help to balance more academic jargon and are useful in making the reader feel more comfortable. Stiglitz provides a foundational explanation of how the financial system works. In the first chapter, he explains the "two core functions of the banking system." (p. 5) Banks' processes are laid out neatly for readers without a specialized knowledge of the subject matter. Additionally, explicit definitions of economic vocabulary such as "T-bills" and "externalities" are neatly tucked into the narrative form. Although at times terms such as "mortgage product" and "margin requirements" are left undefined, descriptions of how they function in a given circumstance provides the reader with a contextual understanding.

Given how clearly Stiglitz lays out the conditions that led to the crash, it is confusing why he and his colleagues' predictions ("all Keynesian economists") went unnoticed. It seems that faith in the self-regulating capacity of markets and reluctance to admit failure, along with a desire for continued profit, blinded banks and regulatory agencies. However, if predictions were ignored before the collapse, how does Stiglitz expect the Federal Reserve and Treasury to react to his current recommendations? If there are objections to limiting bailouts, certainly it would be impossible to completely restructure the economic system. Still, this book is an excellent introduction to the U.S. financial system during the Great Recession. It bridges the media's snapshots and an economist's investigation, creating a vivid picture of the 2008 crisis and the effects of current financial policy. The goals he identifies present ideals to which to aspire.

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